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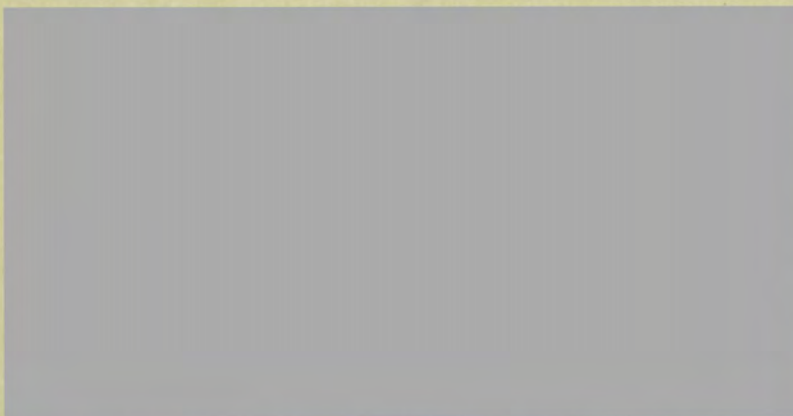


30043668

COMMITTEE — 1971

1. Inflation, 2. Finance, 3. Trade, 4. Investment, 5. Education, 6. Economics & Research, 7. Legal / ICSTD
8. Information, 9. Secretary's / Executive Offices

3



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LOAN COMMITTEE

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SEP 05 2014

November 3, 1971

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Tunisia - Societe Nationale d'Investissement

1. The Committee is requested to consider, without meeting, the attached memorandum dated November 3, 1971 from the Europe, Middle East and North Africa Department, entitled "Tunisia - Proposed Fourth Loan to Societe Nationale d'Investissement (SNI)" (LC/O/71-117).
2. Comments, if any, should be sent to reach Mr. Siebeck (ext. 4707) by 5:00 p.m. on Monday, November 8.
3. It is planned then, if the Committee approves, to inform the Government and representatives of SNI that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

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Committee:

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
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LC/O/71-117

November 3, 1971

LOAN COMMITTEE

Memorandum from the Europe, Middle East and North Africa Department

TUNISIA - Proposed Fourth Loan to Societe Nationale d'Investissement (SNI)

1. Attached for consideration by the Loan Committee is an appraisal report entitled "Tunisia - Societe Nationale d'Investissement" (No. DB-81) dated October 28, 1971. It recommends a fourth loan of \$10 million to Societe Nationale d'Investissement (SNI). Three previous loans were made to SNI, the first of \$5 million in May 1966, the second of \$10 million in September 1967, and the third again of \$10 million in December 1969. The third loan is expected to be fully committed in a few weeks.
2. In 1966, IFC invested \$572,000 in SNI's share capital, giving it a 20 percent participation. When SNI doubled its capital in 1970, IFC increased its participation by \$630,000, thus maintaining its 20 percent holding. The Swedish International Development Authority (SIDA) made two long term loans to SNI totalling US\$9 million.
3. The proposed loan to SNI would be the thirteenth Bank loan to Tunisia, bringing total Bank lending to \$116.3 million, in addition to eight IDA credits totalling \$49.8 million. The current five-year operations program is attached.
4. A report on Tunisia's current economic position and prospects was issued on August 18, 1971 (EMA 38a). During the past five years, real economic growth averaged only about 3½ percent. The coming year is expected to show better results. However, while there are sufficient resources and markets for substantially higher growth in the future, improved performance will depend upon the application of more effective economic policies. New policy objectives were introduced by the Government in November 1970, which anticipate less direct government involvement in economic decisions, decentralization of economic responsibilities, encouragement of private initiative and relaxation of economic regulations. In addition, new incentives are being given to foreign investments in export industries. At the same time the banking system, including investment institutions like SNI, is expected to play a more independent and active role in appraising and promoting development projects.

5. Prospects for 1971 and 1972 are favorable because of higher agricultural output resulting from favorable weather conditions. This year's tourism season surpassed expectations. High Government spending is stimulating domestic demand and imports will rise, yet, foreign exchange earnings are likely to go up as well, preventing a further increase in the current account deficit of the balance of payments. As capital inflow is expected to be high, the gradual improvement in reserves achieved during the past three years is likely to continue. The further outlook for the balance of payments depends largely on the discovery of new oil deposits, further expansion of tourism, on workers' remittances, and the continuation of substantial amounts of external aid.

6. Tunisia's foreign debt is high; however, the debt structure has improved due to restraint over the past few years in short and medium borrowing and to foreign aid made available at favorable conditions. Tunisia can be considered creditworthy for some additional conventional long-term borrowing, provided a large proportion of new external assistance is made available at concessional terms.

Issues

7. Staffing and Organization: SNI was appraised for the third Bank loan in March 1969. Over the two years until the subsequent appraisal in February 1971, SNI almost doubled the volume of its approvals (from D3.7 million for 42 operations in 1968 to D6.7 million for 66 operations in 1970.) However, during the same period, SNI's organization weakened. Ten months after Mr. Moncef Belkhodja took over as President Director General of SNI in January 1969, his experienced deputy as well as two other high level executives left and were not replaced. These changes had a negative effect on SNI's operations and staff morale. Since the middle of 1970, the Bank has become increasingly disturbed by the declining quality of SNI's appraisals. Deficiencies in SNI's operations were already serious when the management changed again last March. Mr. Habib Bourguiba Jr. (President Bourguiba's son) was elected as SNI's President Director General. He replaces Mr. Moncef Belkhodja who remains temporarily with SNI as "Administrateur Delege".

8. SNI now needs a major overhaul of its organization and an upgrading of its staff to strengthen its project appraisal and supervision work. At SNI's own request, an expert from the International Executive Services Corps (IESC), after more than three months of field investigation, recently prepared a report on SNI's re-organization needs, which recommends important changes in SNI's organizational structure. On the basis of these recommendations which are by and large in line with those made by the Bank's appraisal mission, SNI is presently preparing a plan and schedule for a re-organization, on which agreement would have to be reached during negotiations.

9. The appraisal report lists a number of remedial measures (paragraphs 3.07, 3.12 - 3.15 and 3.17) which SNI would have to take, namely:

- (a) SNI should determine its need and use of advisory services. It employs at present a French engineering advisor who, in the circumstances however, mainly discharges coordination and general management functions. SNI also may have to look for further outside expert assistance to assist in carrying out its re-organization.
- (b) SNI should create a technical unit for appraisal and follow-up of industrial projects.
- (c) Project follow-up in general should be intensified and staff added for this purpose.
- (d) In addition to strengthening its own expertise, SNI should, to the extent feasible and useful, avail itself of the cooperation of competent Tunisian institutions in project promotion, appraisal and follow-up. For tourism projects it could explore possibilities for cooperation with COFITOUR (a tourism and hotel financing company in which IFC holds 20 percent and SNI 16.5 percent of share capital), particularly for projects jointly financed with COFITOUR. For industrial projects cooperative arrangements may be possible with the National Industrial Research Center, a government promotion agency which receives considerable technical assistance from UNDP/UNIDO.

These measures should be part of the understanding to be reached with SNI on its organizational improvements. Finally, the provision of adequate training facilities for SNI's senior officers and middle management will also be raised during negotiations.

10. Audit Provisions: A major problem occurred in connection with the audit of SNI's 1970 accounts. After their first field audit in March, the auditors declined to express an opinion because they were unable to obtain financial statements of the client companies for several SNI loans in arrears. Only after two further field investigations the auditors have now been able to deliver a report including a qualified opinion. It indicates that SNI's risk is generally covered by adequate provisions subject to the collectibility of two loans for which sufficient details were not available. These risks, in DFC Department's view, are however covered by SNI's general reserves.

11. This problem was partly due to the timing of SNI's audit which under all previous Loan Agreements is to be completed five months after the close of SNI's financial year, i.e. by the end of May. SNI's clients however, under Tunisian law, are not required to produce their annual statements before the end of June. We await SNI's suggestions as to how this year's problems can be avoided in future.

12. Moreover, while financial provisions appear adequate it has become clear that SNI has not established these provisions following a systematic method based on a careful review of its portfolio. This should be remedied in the future, and will be discussed during negotiations.

13. Other matters: Other matters on which we will have to reach an understanding during loan negotiations concern several aspects of SNI's appraisal work and project selection, security on its loans, and its efforts to tap other sources of funds.

- (a) We would like SNI to improve its financial and economic analysis of projects by computing internal and economic rates of return as a selection criterion. Financial rates of return should at least be equal to the estimated cost of capital in Tunisia and projects with returns of considerably less than 10 percent should not qualify for SNI financing. In cases where the incidence of taxes and subsidies would have a significant effect on the financial rate of return, SNI's appraisal should include a calculation of the economic rate of return.
- (b) We would also like SNI to put more emphasis on its financing of export-oriented projects. So far, it has almost entirely financed import substituting projects in industry.
- (c) About 40 percent of SNI's end-1970 loan portfolio was not properly secured. Most land in Tunisia's rural areas has not yet been registered and mortgages cannot be validly established. Only a "mortgage promise" can be obtained which does not give any rights until registration. SNI's sub-loans to hotels in such cases are only secured by chattel mortgages which for all practical purposes are of marginal value. SNI and the Government have been advised to explore, before negotiations, how appropriate security for SNI's loans can be created, and we have just been informed that the Tunisian delegation will propose a solution during negotiations.
- (d) For its foreign currency needs SNI has so far relied on the Bank and SIDA. Its local currency resources were provided by the Government, public institutions, equity; and by SIDA which allows the use of up to 50 percent of its loans for local financing. A similar arrangement under the last Bank loan for an amount of up to \$1 million was not used, and no local currency financing is suggested under the proposed loan. With funds still available under the SIDA loans, from the recent share capital increase and expected cash generation, SNI is expected to cover its local currency needs until end 1972; i.e. throughout the commitment period of the proposed loan.

However, SNI should now begin to intensify its so far restrained efforts to raise funds in the domestic market. It should also be urged to make greater efforts to diversify its foreign sources of funds.

Recommendation

14. SNI has good business prospects. Its organization and staffing have weakened considerably over the past two years, but its management seems determined to remedy this situation and, although still new, should stand a good chance of achieving an effective reorganization. Such improvement is more likely to result if the Bank continues its financial support and supervision. To withhold support at this moment would compel SNI to reduce its operations and would adversely affect private investment in industry and tourism. I therefore agree with the appraisal report's recommendation for a new loan of \$10 million, based on agreement concerning satisfactory measures to resolve SNI's main problems. This amount would cover a commitment period of twelve months instead of the usual two years. SNI would thus be reappraised in mid 1972 and in the meantime be kept under close supervision.

15. I recommend that the Bank invites SNI and the Government to send representatives to negotiate a loan of \$10 million on the lines indicated in Chapter VI of the Appraisal Report and in this memorandum.

Dieter Hartwich
Deputy Director

Attachments

POPULATION: 4.7M

GNP PER CAP: \$ 220

IVA TUNISIA

- 5 YEAR OPERATIONS AND LENDING PROGRAMS

(BY FISCAL YEAR - AMOUNTS IN \$ MILLIONS)

OPERATIONS PROGRAM	1972	1973	1974	1975	1976
4-TUN-AC-02 AGRICULTURAL CREDIT II			15.0		
4-TUN-AC-03 AGRICULTURAL CREDIT	8.0				
4-TUN-AC-04 AGRICULTURAL CREDIT II		8.0			
4-TUN-AF-01 FISHERIES	2.0				
4-TUN-AI-01 IRRIG. I EL-APRUUSIA		6.0			
4-TUN-AI-02 IRRIGATION		6.0			
4-TUN-OD-04 SNI IV (DFC)	10.0				
4-TUN-OD-05 SNI V (DFC)		13.0			
4-TUN-OD-06 SNI VI DFC					10.0
4-TUN-EE-04 EDUCATION IV				10.0	
4-TUN-IM-01 PHOSPHATE MINING I				10.0	
4-TUN-PP-02 POWER	10.0				
4-TUN-QQ-01 TOURISM I	7.0				
4-TUN-QQ-02 TOURISM II		10.0			
4-TUN-TH-03 ROADS CONSTRUCTION II					15.0
4-TUN-TR-02 RAILWAYS II			10.0		
4-TUN-WE-01 URBAN SEWERAGE I		8.0			
4-TUN-WE-02 WATER SUPPLY IV				10.0	

	1964-68	1969-73	1972-76
IBRD	34.0	124.3	95.0
IDA	19.0	61.8	73.0
TOTAL	53.0	186.1	168.0
NO	5	20	18

	1972	1973	1974	1975	1976
IBRD	25.0	25.0	25.0	10.0	10.0
IDA	12.0	26.0		20.0	15.0
TOTAL	37.0	51.0	25.0	30.0	25.0
NO	5	6	2	3	2

LENDING PROGRAM (/ /)

IBRD			
IDA			
TOTAL			
NO			

IBRD					
IDA					
TOTAL					
NO					

LOAN COMMITTEE

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SEP 05 2014

November 3, 1971

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Jordan - Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated November 3, 1971 from the Europe, Middle East and North Africa Department, entitled "Jordan - Education Project" (LC/0/71-116).
2. Comments, if any, should be sent to reach Mr. Speller (ext. 4814) by 1:00 p.m. on Monday, November 8.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
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Sir Denis Rickett, Vice President
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Directors, other Departments
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Vice President (IFC)

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LC/0/71-116

November 3, 1971

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

Jordan - Education Project

1. This memorandum recommends an IDA Credit in an amount of up to \$6.4 million to help finance an Education Project in Jordan. A report entitled "Appraisal of a First Education Project in Jordan" (PE-36) dated October 15, 1971 is attached hereto. There are no general policy issues raised by this project.

Background

2. The proposed Credit will be the first Bank Group operation in Jordan's education sector. Past Bank Group lending to Jordan consists of five Credits (two for water supply, two for agricultural credit, and one for transportation) amounting to \$15.5 million. Execution of these projects has been slow but generally satisfactory; however in the case of the second agricultural credit of May 1967, the freezing of operations in the West Bank and unsettled conditions in Jordan since the Arab-Israeli war of 1967 have seriously affected the operations of the Agricultural Credit Corporation and made it necessary to postpone the closing date by fifteen months to December 1972. Two other projects are being considered for subsequent financing by IDA for the expansion of the Amman water supply and sewerage system and for power generation. A copy of the lending program for FY 1972-1976 is attached.

3. The findings of a Bank economic mission which visited Jordan in February 1971 are reported in a "Memorandum on the Current Economic Position and Prospects of Jordan" (EMA-37) dated May 6, 1971. Since then the internal security situation within the country has improved and the economy is now showing signs of recovery from the paralysis brought about by the hostilities of June and September 1970 and their aftermath. Although in the past Jordan has demonstrated an ability to make significant progress under difficult conditions, long-term prospects for development depend essentially on the restoration of peace in the area. The country will remain dependent on outside financial assistance on soft terms for some time to come.

The Project

4. The proposed project, which was first prepared by UNESCO early in 1970, is estimated to cost \$9.8 million of which \$6.4 million, is required in foreign exchange. The project consists of a number of separate items each of which is designed to meet a specific need within the educational system. These are: (i) two comprehensive secondary schools, which will help correct the present imbalance between purely academic- and vocation-orientated secondary education in favour of the latter; (ii) a polytechnic and trade training centre, including a science equipment production unit and facilities for training technical teachers for preparatory schools; (iii) a primary and preparatory teacher training college; and (iv) the expansion of an existing agricultural school with facilities to train agricultural teachers for preparatory schools. Technical assistance amounting to about \$1.6 million would also be required for the project. Financing for part of this amount has already been requested by the Jordan Government from UNDP and other possible donors. The attached appraisal report, which includes as part of the project only those items for which Bank financing has so far been requested, will be amended in its final version to include as part of the project all technical assistance items, whether financed by IDA or other sources (see para 5).

Project Issues

5. Technical Assistance. The proposed Credit includes only part of the technical assistance needed for the successful operation of the project (see Annex 15 of the Appraisal Report). The reason for this is that the Government has already applied to UNDP for finance to cover the cost of a national vocational training program which would include the technical assistance required for the trade training centre, and hopes to obtain from bilateral sources the technical assistance required for the polytechnic. Confirmation will be obtained at the time of negotiations as to the status of these requests. If, contrary to present expectations, the Jordan Government cannot obtain by the time of negotiations, assurances satisfactory to the Bank from UNDP or other agencies that the requirement mentioned in para 8.02 (i) of the Appraisal Report concerning technical assistance for either of these project items can be met, Education Projects Department recommends, and I concur, that the amount of the Credit should be increased correspondingly. The foreign exchange cost of technical assistance needed for the polytechnic and trade training centre is estimated at about \$1.0 million, which would bring the amount of the Credit to a maximum of \$6.4 million (or about 65 percent of the total project cost of \$9.8 million).

6. Project Organization. The Government intends to establish a project unit within the Ministry of Education to supervise the project and has already designated a project director (subject to confirmation at the time of negotiations). The Appraisal Report recommends strengthening the system of educational planning and coordination in Jordan in several areas which directly affect the success of the project, namely, agricultural education (para 3.10 of the Appraisal Report), the training of science teachers (para 3.12 of the Appraisal Report), and vocational education.

Assurances will be sought, at the time of negotiations, that the Government will make institutional arrangements for cooperation between the Ministries of Education and Agriculture in the management of agricultural secondary schools and between the Faculty of Science and the Department of Education of the University of Jordan in the training of science teachers for secondary schools. The Government will also be required, under the terms of the Credit, to implement plans for establishing a National Vocational Council (para 6.08 of the Appraisal Report).

7. Provision has been made, as part of the project, for technical assistance to strengthen the Educational Planning Unit within the Ministry of Education, and the Government will be asked to appoint qualified Jordanian counterparts for the technical assistance staff provided.

Recommendation

8. I recommend that the Association invite the Government of Jordan to send representatives to negotiate a Credit along the lines of the recommendations contained in paras 8.01 through 8.04 of the Appraisal Report and in this memorandum (in particular para 5 concerning the possibility of financing additional technical assistance).

Dieter Hartwich
Deputy Director

Att.

POPULATION: 2.1M

PAGE 69

GNP PER CAP: \$ 260

IVA JORDAN - 5 YEAR OPERATIONS AND LENDING PROGRAMS
(BY FISCAL YEAR - AMOUNTS IN \$ MILLIONS)

OPERATIONS PROGRAM		1972	1973	1974	1975	1976
4-JOR-EE-01 EDUCATION I	IDA	6.0				
4-JOR-EE-02 EDUCATION II	IDA				5.0	
4-JOR-PP-01 POWER GENERATION	IDA			6.0		
4-JOR-TH-02 HIGHWAYS II	IDA					5.0
4-JOR-WW-03 WATER SUPPLY	IDA		5.0			

1964-68 1969-73 1972-76

IBRD			
IDA	9.5	17.0	27.0
TOTAL	9.5	17.0	27.0
NO	3	3	5

IBRD					
IDA	6.0	5.0	6.0	5.0	5.0
TOTAL	6.0	5.0	6.0	5.0	5.0
NO	1	1	1	1	1

LENDING PROGRAM (2/19/71)

IBRD			
IDA	9.5	18.0	22.0
TOTAL	9.5	18.0	22.0
NO	3	4	5

IBRD					
IDA	4.0	6.0	3.0	5.0	4.0
TOTAL	4.0	6.0	3.0	5.0	4.0
NO	1	1	1	1	1

P & B 09/15/71

LOAN COMMITTEE

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LM/M/71-43

November 2, 1971

Minutes of a Special Loan Meeting to consider "Botswana - Shashe Infrastructure Project" held on October 19, 1971 in Conference Room B.

- Present: Messrs. Knapp (Chairman), Cope, Williams, Chadenet, Fuchs, Lejeune, Husain, Scott, Bailey, Dean, Finzi, Loh, Niehuss, Poncia, Raizen, Russell, Wyatt and Wittusen (Secretary).
- Background: The meeting was called to consider Mr. Lejeune's memorandum to Mr. Knapp dated October 19, 1971. As a result of the large increase from \$121 million to \$149 million in the estimated costs of the nickel/copper mining project, which the Bank's loan for infrastructure facilities was intended to support, substantial modifications in the arrangements which had been previously negotiated with the Bank had been proposed by American Metal Climax, Inc. (Amax) and Anglo/American Corporation of South Africa (Anglo). Amax and Anglo were the major indirect shareholders in Bamangwato Concessions Ltd. (BCL), the Botswana mining company that would construct and operate the mining project.
- According to the original mining plan ore was to be mined from two mines (Pikwe and Selebi), and both mines were to be opened at the same time in 1973. The estimated life of the combined mining operation was 25 years. In order to ensure completion of the mining project, Amax and Anglo had agreed with the Bank to provide to BCL all additional funds over and above the financing plan needed to open the mines and start up the concentrator, smelter and other surface facilities. Of the first \$10 million of these funds 40% were to be provided by way of equity and 60% by way of subordinated shareholder loans from Amax and Anglo repayable over three years out of funds otherwise available for dividends. Any funds in excess of \$10 million were to be provided by way of additional subordinated shareholder loans on the same terms.

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
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Deputy Director, Projects
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Mr. M. Shoaib, Vice President
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Executive Vice President (IFC)
Vice President (IFC)

4. The revised mining plan would shorten the life of the mining operation from 25 to 20 years by way of mining a higher proportion of the richer ore in the Pikwe mine in the earlier years than originally planned. To do this, BCL planned to carry out the mining project in two phases. Phase I would involve the opening of the Pikwe mine (which had a higher nickel content than Selebi) by 1973. Phase II would involve the opening of the Selebi mine in 1979. Amax and Anglo would be willing to provide BCL with the funds necessary to complete Phase I but might want to set a limit (e.g. Rand 6.5 million) on the amount they would be willing to provide to ensure the completion of Phase II.

5. Issues: The revised mining plan, the shortening of the estimated life of the mine, and the substantial increase in the cost of the mining project had implications for the underlying security of the Bank's loan for the infrastructure project which matured in the year 2000. Therefore, Mr. Lejeune's memorandum recommended that the Bank staff be authorized to negotiate additional safeguards for the Bank. In particular, he recommended that:

- (i) The description of the mining project in the Bank's Loan Agreement be amended to permit the deferred development of the Selebi mine and that the obligation of Amax and Anglo to the Bank to provide funds to BCL to complete the mining project be revised to ensure that they had an unlimited obligation to provide to BCL all of the funds necessary for BCL to complete both Phase I and Phase II.
- (ii) The Bank's Guarantee Agreement previously negotiated with Amax and Anglo be revised to prevent BCL from repaying subordinated shareholder loans to Amax and Anglo until two years after completion of Phase I except by agreement of the Bank and Kreditanstalt für Wiederaufbau (KfW), the major creditor of BCL.
- (iii) The Bank Loan and Guarantee Agreements be revised to ensure that the last repayment of the Bank loan would fall within the shortened estimated life of the mining operation. To accomplish this result, the following three alternative methods were suggested:
 - (a) shorten the final maturity date of the Bank loan to 1993 now and retain the present clause in the Guarantee Agreement which provided for shortening of the Bank loan in the future if the Bank and BCL agreed (or an arbitrator decided) that the mining operation would be exhausted prior to 1993;

- (b) leave the final maturity of the Bank loan at 2000 but revise the present clause in the Guarantee Agreement so that the Bank could at its absolute discretion shorten the loan in the future if it believed the mines would be exhausted prior to the final maturity of Bank loan; or
- (c) shorten the Bank loan now so that the final maturity date is 1993 but provide for a lengthening to 2000 in the future if the mining company proved to the Bank's satisfaction that the mines would not be exhausted prior to the year 2000.

6. Discussion of recommendation (i): The meeting noted that:

- (i) Although BCL had an unqualified obligation to open both mines, the issue was whether the obligation of Amax and Anglo to provide funds to BCL for this purpose should be unlimited in amount. The Industrial Projects Department expressed the view that it could accept a limited obligation (e.g. Rand 8.5 million) to provide funds to complete Phase II. However, under the original mining plan both mines were to be opened at the same time, and Amax and Anglo had an unlimited obligation to provide funds to open the mines and start up all necessary surface facilities. It was generally agreed that the same unlimited obligation should apply when the opening of one of the mines was deferred.

7. Discussion of recommendation (ii): The meeting noted that:

- (i) Since shareholders' advances were repayable only out of funds otherwise available for dividends and only after liquidity tests were satisfied, several members questioned whether it was necessary to limit the repayment of shareholder advances at all.
- (ii) According to the Industrial Projects Department, the revised financing plan and the proposed construction schedule were tight and there were important unresolved technical questions concerning the capacity of the smelter to handle the increased throughput, all of which could lead to additional cost overruns. In addition, reference was made to the uncertain future of the markets for copper and nickel and to the normal start-up difficulties in a complex project of this kind. Because of these factors, the Industrial Projects Department had concluded that, even though the

Bank did not lend directly to BCL, BCL should not be permitted to repay shareholder advances without the Bank's consent until two years after the completion of Phase I, so as to give the Bank an opportunity to make sure that the mining project was working properly.

- (iii) In addition, BCL should retain cash to finance the opening of the Selebi mine and the restriction on repayment of shareholder advances was therefore necessary and justified to assure the availability of funds for this purpose.
- (iv) Since such a restriction alone would not adequately protect BCL's cash position as long as BCL was permitted to pay dividends, a restriction on dividends was proposed. It was noted that KfW, the major lender to BCL, had not placed any substantial restrictions on the payment of dividends. Therefore, in order to protect the Bank, it was generally agreed that the Bank should have the power to prevent payment of dividends as well as repayment of shareholders' advances until two years after the completion of Phase I and that the Bank should have the power to prevent payment of dividends as well as repayment of shareholders' advances until two years after the completion of Phase I and that the Bank should insist on such a power even if KfW decided not to insist on a similar right.

8. Discussion of recommendation (iii): The meeting noted that:

- (i) The effect of shortening the maturity of the Bank loan would be to require renegotiation of the Subsidiary Loan Agreement between Botswana Government, the Water Utilities Corporation (WUC) and the Botswana Power Corporation (BPC) and the Water and Power Agreement between BCL and WUC and BPC. If satisfactorily renegotiated, water and power rates should remain the same but the yearly power bills to BCL would increase due to the fact that a larger amount of power and water was consumed during each year. Since the unit rate should remain unchanged, it was felt that BCL should not object to the shortening of the maturity of the Bank's loan.
- (ii) The objective of shortening the life of the loan was to ensure final repayment of the loan before the mines were exhausted. It was agreed, however, that the Bank could accept a provision for lengthening the loan in the future if additional ore reserves were proven to the Bank's satisfaction.

- (iii) Revising the Guarantee Agreement so that the Bank could shorten the maturity of the loan at its discretion if it believed the mines would be exhausted prior to the maturity of the Bank loan (alternative (b) in 5 (iii) above) would be a difficult clause to reach agreement on, and even more difficult to implement.
9. Decision: On the basis of paras. 6-8 above, it was decided:
- (i) to approve Mr. Lejeune's recommendation (i) in para. 5 above;
 - (ii) to strengthen recommendation (ii) in such a way that the Bank could unilaterally prevent BCL from paying dividends and repaying subordinated shareholder loans to Amax and Anglo until two years after the completion of Phase I of the mining project; and
 - (iii) to accept either of alternatives (a) or (c) in recommendation (iii).

Dag F. Wittusen
Secretary

JMNiehuss/DFWittusen:as

Cleared by: Messrs. Cope
Bailey
Chadenet
Fuchs
Lejeune
Scott

cc: Loan Committee
Participants

LOAN COMMITTEE

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November 2, 1971

MEMORANDUM TO THE LOAN COMMITTEE

India - Mysore Agricultural Credit Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated November 2, 1971 from the South Asia Department, entitled "India - Mysore Agricultural Credit Project" (LC/0/71-115).
2. Comments, if any, should be sent to reach Mr. Thomas (ext. 2294) by 5:00 p.m. on Friday, November 5.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

Copies for Information:

President
The Economic Adviser to the President
Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

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LC/0/71-115

November 2, 1971

LOAN COMMITTEE

Memorandum from South Asia Department

India - Mysore Agricultural Credit Project

1. I attach a draft appraisal report entitled "Appraisal of Mysore Agricultural Credit Project", recommending that the Association make a credit to India of US\$40.0 million equivalent for this project.

Background

2. This project, which was appraised in March and April 1971, would be the sixth in a series of agricultural credit projects in India; five others in the States of Gujarat, Punjab, Andhra Pradesh, Tamil Nadu and Haryana have been approved by the Association since June 1970; an additional project in the State of Maharashtra has been appraised with a view to presentation in FY 1972 and consideration is being given to appraising one other such project, probably in the State of Madhya Pradesh, later this year. All these projects are aimed at increasing the range and amount of institutional credit available to farmers wishing to take fuller advantage of modern agricultural technology; this opportunity for lending was identified in 1968 by an IDA mission which, with assistance of the FAO/IBRD Cooperative Program, reviewed agricultural credit institutions and farm investment requirements in selected areas of India.

Bank/IDA Lending Program

3. During the current fiscal year, three credits to India totalling US\$64.0 million (Pochampad Irrigation, Cochin Fertilizer and Grain Storage) have already been approved. In addition to the present project, a US\$9.0 million credit for Gorakhpur fertilizer expansion project and a US\$75.0 million credit for railways are expected to be presented during the October/December quarter, bringing the total to US\$188.0 million by the end of this calendar year. A Bank loan of US\$60.0 million for ICICI was presented to Directors on October 26. In keeping with the Government of India's (GOI) emphasis on improvements in agriculture, the lending program for the balance of the year includes US\$62.5 million in this and related sectors - US\$30.0 million for agricultural credit in Maharashtra, US\$12.5 million for wholesale markets in Bihar and US\$20.0 million for Nangal fertilizer. A further US\$247.0 million is envisaged for family planning (US\$12.0 million), industrial imports (US\$75.0 million), shipping US\$80.0 million), a first credit to the Industrial Development Bank of India (US\$20.0 million) and power transmission (US\$60.0 million). A copy of the current edition of the five-year lending program is attached.

4. The April 1971 economic report on India (SA-25a dated May 11, 1971) described the continuation of many of the encouraging trends observed in the previous year's report - in particular the further growth of exports and agricultural production. It notes, however, that net aid receipts have fallen to a level lower than at any time in the past decade and are less than one-third of the peak reached five years ago. This fact represents an important potential constraint on future growth and, already, the resulting shortage of resources has been reflected in a shortfall of investment compared to the planned level which seems to be the bare minimum required if India is to achieve a tolerable rate of growth. Since the economic report was written, an additional burden has been placed on India's financial resources by the influx of refugees from East Pakistan; the budgetary costs of caring for the refugees (estimated at over US\$700 million in the current fiscal year) might well force the Government to reduce development expenditures unless substantial international assistance is forthcoming (only about US\$200 million pledged so far). India's need for substantial aid on concessionary terms continues - and has become even more pressing.

Project Description

5. Most of the proceeds of the credit would be lent to farmers for on-farm investments in minor irrigation, land levelling and mechanization through the Agricultural Refinance Corporation (ARC), the Mysore State Land Development Bank (LDB) and its federated Primary Land Development Banks (PLDB) as well as through selected commercial banks (as in earlier credits, the participating commercial banks would be required to accept the same terms and conditions of lending to farmers as the LDB). In addition, the project would include financing for well-drilling and earth moving equipment and two types of consultancy services - (a) advisers to the State Groundwater cell to set-up and assist in the implementation of detailed geologic and hydrologic studies and (b) specialists to work specifically on the problems of salinity and water-logging being encountered in areas of heavy textured soils as a result of irrigation. As in the other agricultural credit projects in India, ARC would assume the main responsibility for supervision of the proposed project. The Borrower would be GOI, which would relend the credit to ARC which would repay about 70 percent after nine years at an interest rate of $4\frac{3}{4}$ percent per annum and the balance after fifteen years at an interest rate of $5\frac{1}{4}$ percent per annum. ARC would refinance at $6\frac{1}{2}$ percent per annum the loan operations of agreed participating banks. Loans to individual borrowers would be at 9 percent interest, repayable generally over a period of up to ten years but extending to 15 years in the case of loans for land reclamation to small farmers.

6. The appraisal report estimates the total cost of the project at US\$70.4 million equivalent. The proposed Association credit would finance the total estimated foreign exchange cost of US\$20.6 million and approximately 40 percent of local expenditures.

Benefits

7. The appraisal report estimates that the proposed investments would irrigate and lead to an increase in cropping intensity on 142,000 ha, of which 50,000 ha would also benefit by the use of tractors to be supplied under the project. In all, some 36,000 farmers would be able to expand their output of food and commercial crops. The annual increase in production at full development is estimated at about 192,000 tons of foodgrain, 21,000 tons of seed cotton, 44,000 tons of groundnut and 87,000 tons of vegetables. The economic rate of return is estimated to range from 12 percent on dugwell investments to 41 percent on lift irrigation. Benefits to the farmers would also be high with financial rates of return estimated at current producer prices to range from 19 percent to 57 percent for minor irrigation, 28 percent for farm mechanization and 59 percent for land levelling.

Procurement

8. Procedures for tractor procurement would follow those established in other Indian agricultural credit projects. Farmers would choose their preferred model after being appraised of unit prices offered by eligible suppliers for bulk orders at varying quantities. Eligible suppliers and models would be restricted to those manufacturing or approved to manufacture tractors in India. The Association would disburse only against imported tractors. The number of eligible suppliers is now eleven (including dealers representing suppliers in the U.S., U.K., Germany and Japan), but some additional applications for licenses to manufacture are pending and other suppliers may therefore become eligible before procurement is completed. This arrangement provides adequate competition along with sufficient specialization to encourage maintenance of proper service facilities.

9. Well drilling equipment (including bits) and earthmoving equipment (with spare parts) would also be procured through international competitive bidding. Some of this equipment is manufactured in India, but the Government acknowledges that the supply is inadequate for current needs. Procurement arrangements will be on the usual basis of a nominal (i.e. negative) "preference" for domestic suppliers at the level of 15 percent despite the fact that India currently imposes a minimum across-the-board tariff of 30 percent, equivalent to a foreign exchange tax. I do not expect the GOI to ask that these items be reserved for procurement from domestic suppliers, but if any item were to be so reserved, we would reduce the amount of the credit accordingly.

Rehabilitation of Lending Institutions

10. The five earlier agricultural credit projects were in States with comparatively strong cooperative lending institutions, the financial viability of which was never in doubt. Such institutions in Mysore, however, although organizationally well structured, suffer from a history of consistently poor collection records, as indeed do the cooperative banks in

most of the other four States in which similar projects are now contemplated. It was clear during appraisal that a new approach had to be formulated (concentrating on the rehabilitation of the lending institutions) and that assurances of considerable improvement in collection performance and in financial strength would be necessary, if a soundly conceived project was to proceed.

11. The appraisal report outlines a number of recommendations which have been further elaborated by a mission, consisting of the leader of the original appraisal mission and the loan officer concerned, to the State after the green cover report was printed. The mission received a number of satisfactory assurances and commitments which are described in the following paragraphs: these modifications, and the several reservations which I express, have been discussed with the Agriculture Projects Department; and we have agreed on the tactics outlined and the degree to which the various recommendations should be pursued during negotiations.

12. The appraisal report recommends, as a prerequisite to negotiations, that a reorganization of the LDB, acceptable to IDA, be implemented and that necessary measures be taken to ensure the financial viability of the LDB and of a sufficient number of PLDBs to ensure adequate project implementation. Since the mission was in India a detailed plan for the LDB reorganization has been finalized and written commitments by the State government have been received confirming its support of the program and the provision of the necessary funds.

13. The rehabilitation program, which has already been initiated and partially completed, consists of three phases, the essential details of which are:

(a) Phase I - The determination of PLDBs to be eligible under the Scheme: The appraisal report recommends that no bank with a collection rate of less than 75 percent be allowed to participate in the project. The first step, therefore, was to determine the number of PLDBs which would be eligible or which could be rehabilitated within a reasonable period and whether these would be adequate for project implementation. A vigorous collection effort over the last three months of the 1970/71 financial year (April-June 1971) has resulted in a considerable improvement in the overdues position compared with that at the time of appraisal. As at June 30, 1971, the LDB had a recovery rate of 75 percent, and the overall average for PLDBs was 62 percent (compared with 71 percent and 53 percent respectively at the time of appraisal).

A subsequent detailed analysis by ARC and the LDB shows that of a total of 170 PLDBs, 153 are in project areas and of these 50 have overdues of 25 percent or less (compared with only half as many banks at appraisal) and are considered acceptable channels for project lending. Of the remaining 103 project area PLDBs, 12 have overdues exceeding 50 percent and are not amenable to immediate rehabilitation. The rehabilitation program would, therefore, initially be limited to 91 PLDBs (with overdues between 25 and 50 percent), of which 50 are expected to be rehabilitated (see sub-paragraph (b) below) by April 1972 and the remaining 41 by October 1972. This, together with participation by selected commercial banks, should provide an adequate framework for project lending. Since 100 (or some 70 percent) of PLDBs in project areas are either already acceptable or will have been rehabilitated by the likely effective date (April 1972), there will be adequate coverage of the lending area for the commencement of the project. A team from the Agricultural Credit Division of the Reserve Bank of India (RBI), in collaboration with ARC, is in the field surveying all 91 PLDBs to determine their precise organizational requirements, both financial and managerial, and it is anticipated that by November 1971 at least 10 PLDBs will have been rehabilitated, giving a total of 60 viable PLDBs the proposed negotiating date. Phase I has, therefore, been completed and Phase II commenced.

(b) Phase II - The Rehabilitation Program: In order to bring the 91 PLDBs within the proposed criteria of acceptability for project participation, "chronic" overdues (i.e. those deemed irrecoverable, outstanding for three or more years, resulting from non-productive lending such as debt redemption and certain other general lending categories) will be taken out of the balance sheet and transferred to a 'below the line' suspense account. Where such restructuring affects the viability of the primary banks, a capital injection in the form of redeemable equity will be provided by the State government. Sufficient evidence is forthcoming from the analysis of overdues already undertaken to offer assurances that such treatment will result in virtually all the 91 banks achieving an overdue level of 25 percent or less. The overdues so treated will remain collectable and, as recovered, will be used to "retire" the share capital contributed by the State government. The sum involved is calculated at about Rs. 7 million, which the State government has undertaken to provide from funds originally budgeted for well subsidies which are to be removed. The financial

assistance to be provided will be contingent upon the agreement of the banks to appoint managerial and other staff found necessary by the RBI survey, such staff to be officers of the LDB. Financial assistance to this end will also be forthcoming from the State government. Where serious lapses in management are diagnosed, the Registrar of Cooperatives will take legal action to appoint the apex LDB as Administrator

(c) Phase III - Measures to avoid recurrence of the overdues position: Plans have also been formulated to improve the overdues position overall, over and above the 25 percent level, which is regarded as only a first, interim benchmark. The enhanced collection effort of the last few months, the results of which are recorded in paragraph 13(a) is to be sustained. Coercive action regarding overdues is being taken on a State-wide basis and, to date in this financial year, crop attachment orders have been enforced in as many as 30,000 cases. To ensure a continuation of this effort at the proper level, it is proposed that any rehabilitated PLDB which, during the life of the project, falls below the requisite collection level of 75 percent should be disqualified from further refinancing under the project. Such action would only be taken on the advise of the ARC in consultation with the Association. The 12 PLDBs excluded from the present rehabilitation program will be the subject of a longer-term program to be formulated by ARC and the LDB.

14. The success of such a program clearly depends very largely on the ability of the LDB to provide the necessary staffing. An existing pool of 127 trained officers, together with 50 now being trained, and further training arrangements should suffice to meet foreseeable staffing commitments.

15. These arrangements represent a positive and realistic approach to the problems of the LDB in Mysore and also to the general problem now facing the IDA program for lending to agricultural credit institutions in India as we approach States with less and less satisfactory cooperative credit systems. Much depends on the roles to be played by the ARC/RBI and the State governments but, in Mysore, these institutions have already demonstrated their readiness to contribute to a meaningful rehabilitation program. The RBI team which undertook the analysis of primary banks was in place within twenty-four hours of the mission suggesting that such an analysis was an essential component of the scheme; and the State government committed its financial support without hesitation.

The extent of the various problems involved will vary in other States and, no doubt, the same cooperation may not always be extended, but the treatment of the problem as evolved so far in the Mysore project is undoubtedly capable of application in other States. In this respect, the present project represents a breakthrough which could be instrumental in achieving a much greater geographical spread of agricultural credit lending in India than was thought possible a few months ago. One alternative, if similar projects are to be realized, is a greater emphasis on commercial bank participation (and, indeed, this appears to be one of the motives for nationalization of these banks in 1970); but at the present stage of commercial bank development in the rural areas of India, the paucity of rural branches, the lack of experience in agricultural investment, the shortage of professional appraisal staff etc., only limited use of these institutions is practicable.

Issues

16. Progress with rehabilitation: We propose to make the rehabilitation of the first 50 banks a condition of effectiveness of the credit bringing the total of eligible PLDBs to 100 (para. 4.15(a)). The alternative course of action, which would, admittedly, provide a greater degree certitude that the rehabilitation program was being successfully implemented, would be to make its completion a condition of Board presentation. We are satisfied, however, that the process is being implemented properly and at a satisfactory rate. The first 10 banks should be restructured by the time negotiations commence; funds and staff are available; and a coordinated and intensive effort is underway, involving not only the State government and LDB but also RBI and ARC. The condition will include the presentation of the FY 1971 balance sheets and overdue positions of the rehabilitated PLDBs, a detailed analysis of the overdues transferred to a suspense account, the capital restructuring undertaken and the managerial reorganization which has taken place. In view of all the circumstances surrounding this exercise, including the goodwill and cooperation that has already been engendered, there appears to be no impediment to its satisfactory conclusion by April 1, 1972, the date by which we now expect the Credit will become effective.

17. The appointment of banking experts: A further condition of negotiation stipulated in the appraisal report (para. 4.15(b)) is that two banking experts should be appointed by the LDB. The State government and the LDB have asked that this requirement be made a condition of effectiveness and, in view of the need to select these experts with care and in consultation with the ARC and the RBI, this seems a most reasonable request, and I recommend that we concur.

18. Consultancy services: In view of the need to set up detailed geologic and hydrologic analyses in Mysore, a recommended condition of effectiveness is the appointment of two internationally recruited consultants - a hydrologist and a hydrogeologist (para. 3.08). In two earlier projects in Southern India, Andhra Pradesh and Tamil Nadu, where similar problems concerning groundwater exploitation occur, the Association

is financing the recruitment of six consultants in disciplines related to the exploitation of groundwater resources. During the negotiations held on the Tamil Nadu project, some discussions centered on the possibility of pooling consultancy expertise to concentrate on the problems of hard-rock areas of the four central/southern States of Andhra Pradesh, Tamil Nadu, Mysore and Maharashtra (where a similar project has been appraised and, it is hoped, will be negotiated this year). There are geographical and geological similarities, which make a single integrated consultancy team an economical and desirable proposition. In the event, nothing concrete emerged from these discussions. During negotiations we would explore further the possibility of creating such a team, and of incorporating the experts proposed for Mysore. We should also need to be satisfied that sufficient additional necessary expertise was available to the team, possibly from the Central Groundwater Board, which is now in the process of being established, to ensure that farmers' investments in groundwater are protected by proper evaluation and technical assistance. Unless acceptable arrangements for a pool of consultants can be agreed, we would insist on the employment of the proposed consultants specifically for the project.

19. Subsidies on investment for lift irrigation: The appraisal report recommends (para. 3.05) that the State government should undertake to withdraw all subsidies from the financing of lift irrigation schemes and to ensure that water charges sufficient to cover the costs of such schemes are imposed on beneficiaries. The existing policy provides that only 1 percent of the investment costs are derived from share capital contribution by members of the Lift Irrigation Co-operative Societies; a further 9 percent is supplied through a State government contribution, and the State government also provides a grant to cover 30 percent of the investment costs. Lending conditions to be imposed under the Credit stipulate a downpayment of 20 percent of the cost by the beneficiary, which would include his share capital contribution. The State government has represented that terms proposed by the appraisal mission are over-onerous and that the degree of subsidy now provided should be continued. In view of the high financial rate of return to be obtained from lift irrigation investments (57 percent), however, continued subsidization of these schemes seems quite unwarranted.

20. An acceptable compromise will be sought at negotiations. If it can be demonstrated that the majority of beneficiaries would fall into the category of small farmers, we would consider the application of concessionary downpayment terms (10 percent). We do not think that any solid case can be made for a continuation of the large grant element. If no such compromise can be reached, it may be necessary to remove this item from the project and reduce the amount of the Credit accordingly (i.e. by US \$1.2 million).

21. Amendment to the By-Laws of the LDB: A desirable modification to the By-Laws of the LDB is advocated, as a condition of effectiveness, which would enable the organization to appoint and employ, as career officers, a managing director and a secretary with suitable banking qualifications (para. 7.01(d) (ii)). The present incumbents are members of the Indian Administrative Service (IAS) who are seconded for fixed terms and who, although excellent administrators, have no particular banking experience. This practice of seconding IAS officers, or officers of the Co-operative Departments, to head State LDBs is not peculiar to the State of Mysore, but is an all-India policy. The ARC would welcome the proposed reform, which would provide the expertise and continuity of service now lacking and, incidentally, allow some scope for salary restructuring to make emoluments more competitive with salaries paid by commercial banks, not only at the managerial level but also for the lower echelons. The State government, however, has reservations which are apparently shared by the Center. If there is resistance to the measure at negotiations, I should be prepared to be flexible and, if necessary, to remove the covenant. In view of its significance and possible impact on similar agricultural credit projects in other States, we propose to raise the matter generally with GOI in any case, and would do so quite outside the context of this project.

22. Subsidiary Loan Agreements between GOI and ARC and ARC and LDB: These Agreements formalize the refinancing relationship between the GOI, ARC and the LDB and set out the terms and conditions of on-lending. Well-established precedents stemming from earlier Credits exist and the execution of the Agreements has become a matter of routine. However, there has been some inconsistency in their treatment in earlier Credit documents; in some, their execution has been made a condition of effectiveness and in others, it has not. Experience has shown that their execution prior to effectiveness is an unnecessary stipulation which, for purely administrative reasons, can make costly and unnecessary delays in effectiveness. IDA funds could not, in any case, be disbursed without a satisfactory agreement being concluded between these parties. I propose, therefore, that in this Credit, contrary to the recommendation in the appraisal report (para. 7.01(c) (iii)), the execution of the Agreements should not be a condition of effectiveness.

Recommendation

23. Subject to the views of the Committee and with the reservations expressed above, which are largely on questions of tactics and do not in any way represent disagreement with the appraisal team on project objectives or other matters of substance, I recommend that the Borrower be invited to negotiate the proposed Credit of US\$40 million on the basis of the recommendations set out in paragraphs 7.01 and 7.02 of the appraisal report.

Gregory B. Votaw
Deputy Director
South Asia Department

Attachment

Population: 547 m. (1971 Census - preliminary)
 GNP (1970/71) Per Capita: \$90

INDIA - FIVE-YEAR LENDING PROGRAM

		(\$ millions)								
		Fiscal Year					Total	Total	Total	
		1972	1973	1974	1975	1976	1977	1964-68	1969-73	1974-77
Agric. Credit - Mysore	IDA	40.0								
Agric. Credit - Maharashtra	IDA	30.0								
Agric. Credit - Uttar Pradesh	IDA		25.0							
Agric. Credit - Bihar	IDA		30.0							
Agric. Credit - Punjab II	IDA		30.0							
Agric. Credit - Madhya Pradesh	IDA		30.0							
Irrigation - Pochampad	IDA	39.0								
Irrigation - Tawa	IDA		43.0							
Irrigation - Jayakwadi	IDA		20.0							
Irrigation - Pamba	IDA		15.0							
Irrigation - Krishna	IDA		30.0							
Irrigation - Kuttiyadi	IDA		5.0							
Grain Storage	IDA	5.0								
Bihar Marketing	IDA	12.5								
Apple Processing	IDA		9.0							
Lake Chilka Fisheries	IDA		10.0							
Agric. Unidentified	IDA		25.0							
Agric. Unidentified (7 projects)	IDA			165.0						
Agric. Unidentified (10 projects)	IDA				270.0					
Agric. Unidentified (10 projects)	IDA					270.0				
Agric. Unidentified (10 projects)	IDA						270.0			
Telecommunications V	IDA		40.0							
Telecommunications VI	IDA			40.0						
Telecommunications VII	IDA				40.0					
Telecommunications VIII	IDA					40.0				
Telecommunications IX	IDA						40.0			

INDIA - FIVE-YEAR LENDING PROGRAM

(\$ millions)

(Continued)		Fiscal Year					Total	Total	Total	
		1972	1973	1974	1975	1976	1977	1964-68	1969-73	1974-77
Water Supply - Bombay	IDA		30.0							
Water Supply - Unidentified	IDA			15.0						
Water Supply - Unidentified	IDA				15.0					
Shipping I	IDA	80.0								
Shipping II	IDA		80.0							
Highways II	IDA		30.0							
Railways XI	IDA	75.0								
Transportation - Unidentified	IDA			45.0						
Transportation - Unidentified	IDA					55.0				
Tourism - Unidentified	IDA				10.0					
Tourism - Unidentified	IDA					10.0				
Unallocated	IDA				20.0		50.0			

IBRD		60.0		75.0		50.0		159.0	140.5	125.0
IDA		497.5	607.0	375.0	555.0	555.0	540.0	591.0	1,727.9	2,025.0
Total		557.5	607.0	450.0	555.0	605.0	540.0	750.0	1,868.4	2,150.0
No.		15	21	15	18	17	15	11	51	65

Note: the IDA lending program
is to be adjusted to --

375.0 375.0 375.0 540.0 540.0 540.0 1,373.4 1,995.0

LOAN COMMITTEE

DECLASSIFIED

November 1, 1971

SEP 05 2014

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MEMORANDUM TO THE LOAN COMMITTEE

Trinidad and Tobago - Development Finance Company

1. The Committee is requested to consider, without meeting, the attached memorandum dated November 1, 1971 from the Central America and Caribbean Department, entitled "Trinidad and Tobago - Proposed Loan to the Trinidad and Tobago Development Finance Company" (LC/0/71/-114).
2. Comments, if any, should be sent to reach Mr. Wyss (ext. 4761) by 5:00 p.m. on Thursday, November 4.
3. It is planned then, if the Committee approves, to inform the Government and representatives of TTDFC that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

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LC/0/71-114

November 1, 1971

LOAN COMMITTEE

Memorandum from the Central America and Caribbean Department

TRINIDAD AND TOBAGO - Proposed Loan to the Trinidad and
Tobago Development Finance Company

Introduction

1. Attached for consideration by the Loan Committee is Appraisal Report No. DB-83 recommending a Bank loan of \$2 million to the Trinidad and Tobago Development Finance Company (TTDFC).
2. The Bank has so far made six loans to Trinidad totalling \$49.4 million (net of cancellations). Almost one-half of this has been lent in two operations for power (the first \$21.4 million loan was guaranteed by the United Kingdom), the rest for education (20 percent), roads (17 percent), agriculture (10 percent), and a population project.
3. Implementation of Bank-financed projects on the whole has started out with considerable delays. But so far, eventual execution has been satisfactory. Serious difficulties arose initially on the agricultural (Crown Lands settlement) project, but these have been largely overcome through government action. Extensive delays on the highway project were due largely to the unsatisfactory work and collapse of the consultant firm which was replaced in 1969. At present construction work is proceeding satisfactorily, but there are still delays in the execution of studies for new highways.
4. Two projects are under advanced preparation: a port improvement loan which we expect will lead to a lending operation in FY 1972 and a second education loan foreseen for FY 1973. The Five-year Operations and Lending Program (FY 1972-76) is attached.

Economic Situation

5. The economy of Trinidad and Tobago is characterized by a heavy dependence on the oil sector, a low rate of growth of agricultural output, considerable immigration into the urban areas of Port-of-Spain, and a high unemployment rate of about 14 percent of the labor force. However, the outlook for the economy has substantially improved as a result of the

discovery in the last two years of important oil and gas fields off the east coast of Trinidad: AMOCO, a subsidiary of Standard Oil Company of Indiana, plans to produce some 50,000 barrels a day (b/d) by the end of 1971 (about 40 percent of Trinidad's present production), and there are good prospects for this output to increase to 100,000-150,000 b/d by late 1972. As a result, total crude oil output would increase from 140,000 b/d in 1970 to around 300,000 b/d in 1973. As to gas, AMOCO has confirmed sufficient reserves to produce 500 million cf/day for about 20 years and plans are being prepared for a large liquefied natural gas venture oriented to the U.S. market. The Government has approached the Bank and IDB for financing part of the venture. However, we have not yet received the necessary information to determine whether Bank involvement would be justified.

6. On the domestic front, the Government has made substantial efforts to cope with some of the grievances which gave rise to the civil disorders of April 1970. In 1970, the Government purchased the Trinidad branch of the Bank of London and Montreal and acquired a majority holding in CARONI, Ltd., the largest sugar producer on the island. At the same time an employment-creating public works program was started. The result of these initiatives was a substantial increase in central government capital expenditures, since the acquisitions were paid for in cash, and a concomitant central government budget deficit, financed in large part with Central Bank credit. As imports rose in the face of stagnant exchange earnings, Central Bank foreign exchange reserves fell by one-quarter in 1970.

7. The political climate is outwardly calm but still potentially disruptive. The state of emergency declared during the April 1970 disorders was lifted in November 1970. Prime Minister Eric Williams retained control of the Government in the elections of May 24, 1971, when his party captured all the seats in Parliament in the face of an election boycott by the leading opposition party. To some extent, national participation and a more tolerant Government attitude to the opposition have calmed political tempers. Further Trinidadian participation in foreign firms can be expected, and in order to widen its political base, the Government has announced a reform of labor laws. Nevertheless, despite outward stability, the political prospects of Trinidad for the medium-term future remain uncertain since the political life is unlikely to express itself primarily in the Parliament which does not have an opposition party.

8. After months of labor unrest, culminating in violence and the stoppage of work on the country's major construction site - a desulphurization plant at the Texaco refinery - the Government declared a state of emergency on October 19, 1971. The most powerful union leader, Mr. Weekes, head of the oilfield workers trade union, was immediately put in custody together with about ten senior union officials. (Mr. Weekes had been one of the principal organizers during the 1970 disorders). No significant

support to the oilfield workers union has been reported since the arrest of Mr. Weekes. The Government is now seeking to have the work on the Texaco construction site resumed, thus ensuring the employment of about 2,000 people.

9. With additional oil output to start flowing late 1971, the growth of real GDP - which on the basis of preliminary estimates, was about 3 percent in 1969 and 2 percent in 1970 - can be expected to improve to an average of about 5 percent in the next five years. At present the Government is negotiating with the oil companies new reference prices to bring them in line with those prevailing in the OPEC countries (Trinidad is not a member of OPEC). With the additional income from higher reference prices and from the new investment in oil and gas, government revenues should resume growth and thus make it possible that fiscal management will return to the sound state of affairs which has characterized Trinidad in recent years. With a relatively low debt service ratio of less than 5 percent of export proceeds (net of imported crude and factor payments of oil companies) and the now much improved balance of payments prospects, Trinidad has ample room for additional borrowing on conventional terms. On the other hand, the higher rate of growth will still be insufficient to make a significant dent in the unemployment problem over the medium-run. The manufacturing sector and tourism will have to play a critical role in creating new and economically sound income and employment opportunities.

The Project

10. Following the findings of a Bank Mission in 1969 that the establishment of a DFC would be desirable for the further development of the economy of Trinidad and Tobago, Bank staff worked for several months with the steering committee that was charged with the task of finalizing a proposal for the establishment of the company. A loan proposal of \$2 million, to finance the import component of the TTDFC's operations over about two years, was submitted to the Loan Committee in April 1970 (LC/O/70-55). Negotiations of this loan to the company, which had not been formally established, did not take place because of the civil disorders late in April 1970. In May 1970 the Government informed the Bank that it had established the TTDFC and desired to proceed with the proposed loan. The Bank, however, told the Government that it would be necessary to re-appraise the new institution and its prospects, against the background of the April disorder, once it was a going concern. Meanwhile, we kept in contact with TTDFC which opened its doors for business in October 1970.

11. The TTDFC is a private limited company. Of the authorized share capital of TT\$50 million (US\$25 million), TT\$4.27 million has been subscribed and half of this amount has been paid in. The Government alone has subscribed TT\$4 million (or 95 percent). The non-government shareholders are all well-established businesses: banks, insurance, petroleum,

manufacturing and construction firms. The Government has stated that it will hold not less than 51 percent of the TTDFC's share capital. In practice, it is likely to hold a much higher percentage for any foreseeable future.

12. The Company's Board of Directors consists of eight members, including the Chairman. The TTDFC's Articles provide that the Government appoint four directors, the Central Bank one and the private sector three once private sector holdings reach 45 percent or more of the share capital, one director for each 15 percent held. The present Board is composed of one director appointed by the Central Bank and seven directors appointed by the Government. Four of the government appointments are highly respected businessmen, active in manufacturing, insurance and law. The government representatives are the Permanent Secretary of the Ministry of Planning and Development, the Senior Economist of the Ministry of Agriculture and the Manager of the Operations Department of the Central Bank. The Chairman is a successful insurance executive, capable and energetic, taking a very active interest in TTDFC's activities.

13. TTDFC's Articles of Association and Statement on Investment and Operational Policies are in their present form generally acceptable to the Bank. The Policy Statement follows the operational policies usually adopted by development finance companies which have obtained financing from the World Bank Group.

14. The Government has informed the Bank about an arrangement for the division of labor between the TTDFC and the Government's Industrial Development Company (IDC), an industrial promotion institution, which in the past has provided financing for industries and hotels. In the future, IDC will limit financing to small enterprises with maximum loans of TT\$50,000 (US\$25,000).

15. As already pointed out in my memorandum to the Loan Committee of April 1970, the ultimate success of the TTDFC will depend largely on the Company's General Manager. At that time the Government had indicated agreement that the General Manager for the TTDFC, which was about to be created, would be an experienced person recruited abroad, at least for an initial period of one-and-a-half to two years. When the Government decided to go ahead with the TTDFC and to apply for a Bank loan only after the company was a going concern, it appointed a Trinidadian as General Manager. He had previously been Deputy Permanent Secretary in the Ministry of Finance and had spent his entire career with the Government. Although he had served on the Boards of several private enterprises, he had no experience either of managing a business enterprise or a financial institution. He is dynamic and intelligent. Given the opportunity to obtain investment experience he should soon develop into a sound and successful manager. In the interim he needs to be supported by an advisor whose

major strength would be in project appraisal and is also experienced in all aspects of the operation of a dfc. The Government agrees. It has asked the Bank to find candidates for this position, expressing a preference for an Indian. The DFC Department is at present using its contacts in India for this purpose and expects to contact suitable candidates by the end of October. Presentation of the proposed loan to the Board would be made once arrangements for the TTDFC contracting a suitable person are assured. Any significant problem in finding such a person could delay Board presentation, tentatively planned for mid-December.

16. Since the financial forecasts suggest small losses during the first two years, we would wish to obtain during negotiations a commitment from the Government to make available additional capital/subordinated loan funds which will enable TTDFC to generate sufficient income to eliminate these small losses. TTDFC has a sound capital structure and, provided that its operations are organized efficiently, it should have no difficulty in servicing the proposed Bank loan. The exchange risk on the proposed Bank loan would be carried by the Government. The TTDFC's interest rate of $9\frac{1}{2}$ percent is competitive with rates charged by commercial banks on shorter maturity credits.

17. The appraisal report recommends that Bank approval be asked for all sub-loans requiring Bank funds of more than US\$50,000, with an "aggregate free limit" of US\$0.5 million. Discussions held during appraisal and since then indicate that on this point, the TTDFC and the Government feel strongly that now that the Company has already been operative for a year, the Bank should be able to give the TTDFC a higher "free limit". Since the company is new and a close cooperation with the TTDFC will be desirable, I concur with the DFC Department that we should seek agreement on the limits indicated.

18. The terms of the proposed loan are those normally applied to recent Bank loans to development finance companies, with the exception that the TTDFC should be eligible for the concessional treatment in respect of the Bank's commitment charge since the company is just starting out.

Recommendation

19. I recommend that representatives of the TTDFC and the Government be invited to negotiate a loan of US\$2 million on the terms and conditions proposed in the appraisal report.

Edgar Gutierrez
Director

Attachment.

Population: 1.0 million
 GNP per cap: \$870

TRINIDAD AND TOBAGO - 5 YEAR OPERATIONS AND LENDING PROGRAMS

(By Fiscal Year - Amounts in \$ Millions)

<u>OPERATIONS PROGRAM</u>			<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
3-TRI-AF-01	Fisheries	IBRD		3.0			
3-TRI-DD-01	DFC I	IBRD	2.0				
3-TRI-DD-02	DFC II	IBRD			2.0		
3-TRI-DD-03	DFC III	IBRD					3.0
3-TRI-EE-02	Education II	IBRD		8.0			
3-TRI-EE-03	Education III	IBRD					5.0
3-TRI-PP-03	Power III	IBRD				10.0	
3-TRI-TH-02	Highways II	IBRD			9.0		
3-TRI-TH-03	Roads III	IBRD					8.0
3-TRI-TP-01	Port of Spain	IBRD	5.0				

		<u>1964-68</u>	<u>1969-73</u>	<u>1972-76</u>					
IBRD	13.6	32.4	55.0	IBRD	7.0	11.0	11.0	10.0	16.0
IDA				IDA					
Total	<u>13.6</u>	<u>32.4</u>	<u>55.0</u>	Total	<u>7.0</u>	<u>11.0</u>	<u>11.0</u>	<u>10.0</u>	<u>16.0</u>
No.	2	7	10	No.	2	2	2	1	3

Lending Program (3/25/71)

IBRD	13.6	32.4	37.0	IBRD	10.0	8.0	7.0	6.0	6.0
IDA				IDA					
Total	<u>13.6</u>	<u>32.4</u>	<u>37.0</u>	Total	<u>10.0</u>	<u>8.0</u>	<u>7.0</u>	<u>6.0</u>	<u>6.0</u>
No.	2	7	8	No.	3	1	2	1	1

LOAN COMMITTEE

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WBG ARCHIVES

November 1, 1971

MEMORANDUM TO THE LOAN COMMITTEE

International Competitive Bidding for Civil Works

1. Attached for your information is a report entitled "Civil Works Procurement in India."
2. The report is the result of a fact-finding mission to India in September, 1971, headed by Mr. Thalwitz, in response to a decision taken by the Loan Committee during its discussion of International Competitive Bidding for Civil Works on August 13, 1971 (LC/M/71-10).
3. The attached report will be discussed in the Loan Committee on a date to be determined.

Dag F. Wittusen
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
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Mr. M. Shoaib, Vice President
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Executive Vice President (IFC)
Vice President (IFC)

CIVIL WORKS PROCUREMENT IN INDIA

November 1, 1971

TABLE OF CONTENTS

	<u>Page No.</u>
1. <u>INTRODUCTION</u>	1
2. <u>CIVIL WORKS PROCUREMENT UNDER PAST BANK LOANS AND IDA CREDITS</u>	3
3. <u>THE INDIAN CONSTRUCTION INDUSTRY</u>	6
Historical Background	6
Existing Enterprises	6
4. <u>FACTORS HINDERING GROWTH OF THE CONSTRUCTION INDUSTRY</u>	9
The Role of the Public Works Department ..	9
Equipment and Materials	10
Financial Considerations	10
5. <u>THE EFFECT OF FOREIGN COMPETITION</u>	12
6. <u>THE COST OF CONSTRUCTING CIVIL WORKS</u>	14
Evidence from Present Procurement Procedures	14
Cost Comparison Through the Bidding Process	16
Economic Distortions	17
7. <u>CONCLUSIONS AND RECOMMENDATIONS</u>	20

ANNEXES

- I. Civil Works Procurement under Bank Group Financed Projects
 - (a) By Sector
 - (b) By Country
 - (c) By Project

- II. Civil Works Procurement under Bank Group Financed Projects in India and in other Selected Countries
 - (a) Existing Projects - India
 - (b) Projects in Pipeline - India
 - (c) Selected Projects - Other Countries

- III. Circumstances under which the Industry Operates

- IV. Outline of a Proposal for the Use of Shadow Rates in Procurement.

CIVIL WORKS PROCUREMENT IN INDIA

1. INTRODUCTION

1.1 This report presents the findings of a mission consisting of Messrs. Davis, Dickerson, De Lauzun (consultant), Kaden, Stone and Thalwitz which was asked to assess, as it relates to India, the Bank's requirement for international competitive bidding (ICB) for the procurement of civil works. India argues that this requirement should not be applied whenever the construction industry or departmental forces in a borrower's country are capable of undertaking the works involved. Attention focused on the issue when the Pochampad Irrigation Project (India) was presented to the Board in July 1971. While the Board approved, with a slim majority, the procurement without ICB of civil works under that project, it did so only with the understanding that this was an exception which should not set a precedent, and that the Bank would submit a general policy paper on the subject for discussion in the Board before the Board would again be asked to consider a project where similar issues are raised.

1.2 The mission was charged with the task of investigating civil works procurement in India in particular, since India is the only member country for which Bank Group financing of irrigation and highway projects is being kept in abeyance pending Board discussion of the issue. However, any solution worked out with the Government of India would have to be acceptable as a general Bank policy equally applicable to all member countries.

1.3 The mission's approach, as set forth in terms of reference dated August 19, 1971, was to respond to the arguments put forward by the Government of India for rejecting ICB for civil works. The major arguments are the following:

- (a) the Bank has only recently insisted on ICB for civil works, and the strict application of this requirement therefore represents a change from past policy;
- (b) the Indian construction industry is in an infant industry whose development would be hampered if exposed too early to foreign competition;
- (c) foreign enterprises, if introduced, would employ machine-intensive methods of construction despite the abundant supply of labor, and this would result in higher cost to the economy.
- (d) the best way of guaranteeing labor-intensive execution is the present practice of awarding very small individual contracts for works which can be executed by either labor or machines.

1.4 To assess the validity of the first of these arguments, the mission reviewed, at headquarters, Bank Group procurement procedures over the past five years for major civil works in general, and for works in India in particular. The mission also visited India from September 3 to 24 to review:

- (a) the state of development of the Indian civil works construction industry, with particular reference to irrigation and highway projects;
- (b) the circumstances under which the industry operates, including Government policies affecting growth of the industry, conditions of contract and the availability of finance and equipment; and
- (c) the position of the Government of India with respect to procurement of civil works, and the rationale for this position.

In India, the mission met with Government officials and contractors in New Delhi and four states (Maharashtra, Madhya Pradesh, Tamil Nadu and Andhra Pradesh) who, despite the very short notice, were able to provide much useful and pertinent information. The Government made it clear that it wishes to continue the dialogue with the Bank on the civil works procurement issue.

The mission's approach, as set forth in terms of reference dated August 19, 1977, was to respond to the arguments put forward by the Government of India for rejecting ICR for civil works. The major arguments are the following:

- (a) The Bank has only recently insisted on ICR for civil works and the strict application of this requirement therefore presents a change from past policy.
- (b) The Indian construction industry is an infant industry whose development would be hampered if exposed too early to international competition.
- (c) Foreign enterprises, if introduced, would employ machine-intensive methods of construction despite the abundant supply of labor, and this would result in higher cost to the economy.
- (d) The best way of guaranteeing labor-intensive construction is the present practice of awarding very small individual contracts for works which can be executed by either labor or machines.

2. CIVIL WORKS PROCUREMENT UNDER PAST BANK LOANS AND IDA CREDITS

2.1 Our review of Bank civil works procurement procedures, carried out with extensive assistance of four Projects Departments (Agriculture, Education, Public Utilities and Transportation), covered 174 projects, each of which contained a civil works element of at least US\$3 million. The results, shown in detail in Annex I, demonstrate that ICB has been the predominant form of civil works procurement under past loans and credits, with local competitive bidding and construction by departmental forces (force account) being used for only an insignificant portion of civil works under Bank/IDA projects. Of the civil works, totalling about US\$4,452 million, in the projects considered, 93% or US\$4,126 million were subject to ICB requirements in the loan and credit documents.

2.2 In the majority of cases where civil works were to be procured through local competitive bidding or force account, we found the exemptions were justified since the particular works were unlikely to attract the interest of potential foreign bidders, and could more economically be executed by local contractors or departmental forces. Into this category fell works that were individually small, geographically dispersed or in remote areas and therefore not easily grouped into larger packages attractive to foreign bidders. While application of criteria for exemption from ICB does require an element of judgment, the small portion of civil works which have been exempt is evidence that the Bank does provide the potential foreign bidder with a chance to manifest his interest, and excludes him a priori only when it is reasonably certain he would not be interested.

2.3 This is not to say that ICB necessarily assures that a foreign bidder will be awarded the contract. On the contrary, the results of our review demonstrated that ICB is compatible with extensive participation by the local construction industry. Procurement has been completed for about half the civil works elements submitted to ICB (totalling about US\$2,266 million); of these awards, about 52 percent (amounting to about US\$1,184 million) were won by local contractors. If works awarded after local competitive bidding and those executed by force account are added, purely local participation amounted to 58 percent of total procurement. Joint ventures between local and foreign firms accounted for another 8 percent. In several countries where only ICB has been used for Bank projects, local contractors have won all contracts.

2.4 While, then, the Bank has not deviated from the principle of ICB for civil works, India's feeling that the Bank is hardening its attitude on civil works procurement is understandable. This is so simply because the Bank has not, except for some major bridges under the 1961 highway project, insisted on ICB for civil works procurement for any project before Pochampad, but is doing so now for several irrigation and highway project in the lending program. The explanation, however, is found in the nature of civil works which were to be procured.

2.5 For irrigation in India, it has been the Bank's policy to encourage the completion of ongoing projects in order to realize the benefits from the

investment in partially completed facilities. The projects were related to works which had been started by state governments and on which completion was lagging. Construction of the major structures, by departmental forces or local contractors, was fairly well advanced, and items remaining to be procured were too small to be attractive for foreign bidders. Bank financing under these projects was generally for the procurement, under ICB, of imported equipment and materials needed to expedite project completion, plus local currency financing to assist in meeting the cost of work performed by departmental forces or local contractors.

2.6 It is possible to look back on past projects in India and conclude that the Bank's judgment on the suitability for ICB may have favored local bidding in some cases. One could argue, for instance, that the very strictest application of existing criteria might have concluded that ICB was suitable for elements of both the Kadana and the Shetrunji irrigation projects. The Bank/FAO preparation mission of 1969 for the Kadana project had assumed ICB would be required for the lining of 12 km of the Nadiad branch canal at a cost of US\$2.6 million. The works, however, were limited to reshaping of the canal prism, lining it with clay brick and tile, and reconstructing structures. Also, the work could only be carried out when the canal was not in operation, about seven months each year, and would therefore require about three construction seasons. Foreign interest under these circumstances is, we think, debatable. On the Shetrunji project, construction had not started on the 90 km long, 425 cfs Left Bank Canal at the time of appraisal. The appraisal report noted only that: "Canals would be lined in all cases where soil conditions require ...". In view of the limited capacity of the canal and the question as to the amount of lining, if any, involved, the interest of this work to international bidders is also debatable. Similarly, in the 1961 highway project, some road construction works might have been suitable for ICB, but here again, the possibility of foreign interest was open to question.

2.7 Although the emphasis is still on ongoing projects, the critical point for the Pochampad project as well as for a number of projects under preparation is that it simply cannot be argued, even with the most liberal interpretation, that none of the works are suitable for ICB. Bank policy has not shifted; rather, projects being prepared by India contain, for the first time, civil works elements still to be procured which are by existing criteria unquestionably suitable for ICB. Annex II describes the future irrigation and highway projects in the lending program as well as past irrigation projects, and explains the actual or proposed procurement procedures under them. It is our preliminary judgment that in the next six irrigation projects ^{1/} and the second highway project, civil works amounting to about US\$140 million would be suitable for ICB. The amount suitable for ICB is likely to decrease substantially, possibly to US\$80 million, however, if Bank consideration of these projects is postponed, since the Government is proceeding with project preparation and is likely to have let many of the

^{1/} Tawa, Pamba, Kayakwadi, Juttiadi, Krishna and Bhima.

irrigation contracts locally. Annex II also includes irrigation projects in other countries and illustrates that ICB has been consistently applied whenever interest by foreign contractors was judged possible.

2.8 The mission's discussions in India revealed that consistency of Bank policy is no longer an issue; there was little interest in continuation of the debate on differences between Kadana and Pochampad and it would not be constructive to revive it. The Government understands the criteria for suitability of works for ICB and wishes to rely on the industry protection and labor/equipment arguments rather than inconsistency to bring about a relaxation of Bank policies on ICB.

3.1 By the beginning of this century, superlatives of British times were established in India to assist the administration in carrying out the most complex civil works projects. Some of these terms still exist in India, but the overseas holding has been diminished below controlling level, or eliminated altogether.

3.2 With the advent of the Second World War and the need to construct military facilities as rapidly as possible, Indian contractors came into being who were able to construct their own works in their own right. It was during this period, in 1942, that the first contractors' association was formed which has since grown into the present Builders' Association of India. Under the rigors of wartime, strict overall direction continued by military as well as departmental engineers. Thus, the traditional role of the IWB has continued to the present, with existing contract conditions giving the departmental engineer absolute authority over the operations of the contractors. These contractors, having emerged from army organizations of labor gangs directed by Government engineers, have not had the benefit of a long tradition of civilian supervisors accustomed to directing their own operations and respecting an independent commercial entity.

Existing Enterprises

3.3 The Indian construction industry today consists of a number of different types of contractors ranging all the way from small labor organizers to large, specialized and well-equipped construction companies. There is no uniform classification criterion but with appropriate qualifications, it helps to delineate the major categories of contractors. Some of the criteria are primarily measured by the maximum value of contracts for which they are permitted to bid. In the registration procedures, this classification is determined mainly on the basis of proof of financial solvency, often in the form of fixed assets; experience and past performance are also taken into account.

3. THE INDIAN CONSTRUCTION INDUSTRY

Historical Background

3.1 The present form of the civil works construction industry in India can be traced back to the conditions under feudal rule when princes utilized huge labor gangs for the construction of buildings, irrigation works and roads. Under colonial rule, agencies of the British administration: the Army, District Officers, and Public Works Departments (PWDs), continued the system of using large labor forces with the assistance of labor contractors. As design and execution gradually became more complex, almost all engineering knowledge was concentrated in the administration, which therefore reserved for itself the preparation, direction and control of civil works construction. Increased quality requirements, for instance for earth compaction, led to the acquisition of some basic equipment such as steam rollers. The machines were owned by Government agencies and used by labor contractors under the direction of Government engineers.

3.2 By the beginning of this century, subsidiaries of British firms were established in India to assist the administration in carrying out the most complex civil works projects. Some of these firms still exist in India, but the overseas holding has been diminished below controlling level, or eliminated altogether.

3.3 With the advent of the Second World War and the need to construct military facilities as rapidly as possible, Indian contractors came into being who were able to construct minor civil works in their own right. It was during this period, in 1942, that the first contractors' association was formed which has since grown into the present Builders' Association of India. Under the rigors of wartime, however, strict overall direction continued by military as well as departmental engineers. Thus, the traditional role of the PWD has continued to the present, with existing contract conditions giving the departmental engineer absolute authority over the operations of the contractors. These contractors, having emerged from among organizers of labor gangs directed by Government engineers, have not had the benefit of a long tradition of artisan enterprises accustomed to directing their own operations and competing as independent commercial entities.

Existing Enterprises

3.4 The Indian construction industry today consists of a number of different types of contractors ranging all the way from small labor organizers to large, specialized and well-equipped construction companies. Size is an imperfect classification criterion but with appropriate qualification, it helps to delineate the major categories of contractors. Size of enterprises is primarily measured by the maximum value of contracts for which they are permitted to bid. In the registration procedures, this classification is determined mainly on the basis of proof of financial solvency, often in the form of fixed assets; experience and past performance are also taken into account.

3.5 At one end of the range are innumerable small contractors handling contracts, usually of one year's duration, up to about \$100,000 equivalent. The small contractors' principal characteristic is the ability to perform labor-intensive operations ranging from simple excavation and other earth-moving operations, to stone-cutting and masonry works requiring considerable skill. They usually specialize in one of these activities. Their classification depends on financial resources available to pay advances to workers, and to provide housing and other amenities for them. These small contractors own very little equipment, usually just a few lorries, and rely in the performance of their work on direction from the departmental engineers and overseers.

3.6 Although these smaller contractors closely resemble the labor gang leaders of colonial times, it would be wrong to take their existence as characteristic of an underdeveloped industry. Given the abundance of cheap labor and the relative scarcity of equipment, they perform an economically useful function in mobilizing required labor forces. They will always be needed to assist in the performance of small maintenance and rehabilitation works under individual contracts, and they are useful to larger enterprises who, for operations which can more economically be performed by labor, prefer sub-contractors to the inflation of their permanent payrolls.

3.7 At the other end of the range are about 50 large construction companies who have no difficulty handling contracts exceeding \$1 million equivalent. They have acquired the specialized equipment, expertise, and financial resources to construct complex works such as harbors, tunnels, large bridges, powerhouses and steel plants. They have so far shown little interest in competing with smaller contractors for those irrigation and highway works that can be executed by labor-intensive methods, partly because there is an abundance of work which requires their specific capabilities. However, they are capable of taking on almost any form of construction which offers continuity of work to justify the mobilization of specialized equipment and staff. In summary, their approach is comparable to that of contractors in developed countries, and some of them are successfully competing with foreign firms for works in other developing countries. They are also confident enough to seek cooperation with foreign firms in joint ventures when they can technically and financially profit from such temporary association.

3.8 The remaining group is least well defined by the size of contracts they handle (\$100,000 to \$1 million equivalent annually). It consists of several hundred of what we will, for convenience, call medium-size contractors, although they do not form a very homogeneous group. They differ widely in the degree of specialization, use of equipment, and financial resources. In this group there are contractors who use labor almost as extensively as the small contractors, but there are others who have developed the expertise and acquired more sophisticated equipment which enables them to perform adequately in such works as bridge construction and road surfacing.

3.9 While the small labor contractors and the large specialized companies are sufficiently developed to meet their particular business objectives, the development of the medium-size contractors is still in progress. Most of them are impressively well educated and demonstrate keen business

acumen. Since there is in India no scarcity of well qualified engineers, they have no difficulty forming competent technical staff. Specialized labor is also available, although the regional concentration of skills often entails the costly transfer of large groups of workers from one State to another. Using the available resources in technical expertise, specialized labor and equipment, these medium-size contractors are experimenting with new methods, trying to increase their competence and capacity. They are grappling with managerial problems, and trying to develop abilities in analytical costing to prepare closely calculated bids responding to specifications which are not always clear. In all States visited by the mission, the progress of this group of contractors, most of whom have emerged from among the small labor contractors, was evident. Their development is progressing more slowly than necessary however, primarily because of the continued existence of conditions of contract and other policies of Government agencies which were appropriate when the entire "industry" consisted of labor contractors, but which are not conducive to the development of enterprises that can responsibly direct their own operations.

4. FACTORS HINDERING GROWTH OF THE CONSTRUCTION INDUSTRY

4.1 What, specifically, are the factors which are hindering the Indian construction industry - despite its business acumen, engineering know-how and ability - from reaching its full development potential? The mission found that, while the factors are many and complex, they are within the power of the Government to correct. They are described briefly below and in more detail in Annex III.

The Role of the Public Works Departments

4.2 As the civil works program in India increased, so did the size and strength of the PWDs. The PWDs developed a policy of fragmenting works into small contracts of short duration on the assumption that the use of small contractors guarantees the employment of the abundant local labor and results in the cheapest price for the work. This policy, which requires a large establishment to supervise the fragmented work, also helps to maintain the PWD's dominant position in relation to the contractor and gives employment with security of tenure to a large number of engineers. The size of the resulting establishment is illustrated by the ratio of one staff member to each \$12,000 of expenditure, while other developing countries have a workload per Government employee of some four times that amount. As a result of the policy, however, contractors tend to specialize in one type of work, and to operate on a year-to-year basis which inhibits the possibility of growth. Also, with their large staff and ownership of some 80% of the construction equipment in the country, the PWDs frequently undertake machine-intensive operations by force account, which further reduces the contractor's options for development. Although the contracting industry has developed despite these adverse influences, the position of the PWDs has changed only marginally and slowly.

4.3 The dominant position of the PWDs is reflected in the contract documents which embody the working relationship between the PWD engineer and the contractor; these documents are biased in favor of the Government, and contain many features that are objectionable to and inhibit the development of the contracting industry. While they vary from State to State and between agencies in the same State, the differences are in degree rather than in general approach. Efforts made by the central and some state governments, and by the Builder's Association of India to modernize and standardize these documents have met with very little success. The largest contractors obtain some relief by requiring liberalization of certain provisions as a condition of tender, and the smallest labor contractors do not object since they expect and need direction; the group most adversely affected consists of the medium-size contractors who have the best development potential.

4.4 The contract condition that is probably most objectionable to the contractors, and most inhibiting to their development is that which gives the PWD engineer absolute authority to direct the operations of the

contractor, by stating that his decisions are final and binding. The engineer's authority extends to interpretation of the technical specifications, and since these are all too often obsolete, ambiguous or incomplete, the contractor is at the mercy of a particular engineer as to the work he must perform under his contract. As a result of not being allowed to direct his own operations, the contractor has little incentive to develop his competence to do so. The contractor's position is further weakened by the fact that equitable arbitration provisions that are standard in most other countries are almost never included in PWD contract documents. These contract conditions are symptomatic of the larger problem, which is the attitude held by the PWD engineers towards contractors. With this attitude, the PWD rather than the contractor takes direct responsibility for execution of works. Both the conditions and the attitude will have to change to stimulate a responsible, enterprising contract industry to further development.

Equipment and Materials

4.5 Although Indian contractors tend to make extensive use of labor because it is cheap, there are operations which require the use of equipment, and the contractor's capacity to develop is largely dependent on his ability to obtain the needed machines. The first obstacle, lack of funds, is discussed later. Even if funds are available, however, domestic production of many items is insufficient to meet demands, and the Government agencies absorb most of this type of equipment. While the PWD may rent available equipment to the contractor, this solution is not satisfactory since availability is not assured, and in the absence of excess departmental equipment, or its failure to perform, the contractor is still committed to the execution schedule. Furthermore, the rental system curtails the contractor's incentive to develop his own competence, and increases his dependence on the PWD. The performance of machine-intensive work by PWD force account previously mentioned also reduces the contractor's opportunity to use equipment himself, and makes him reluctant to incur the heavy financial investment. It is practically impossible for an individual contractor to procure foreign equipment, and if it can be obtained, the spare parts problem is so severe that Indian contractors contacted by the mission all expressed a preference for domestic equipment.

4.6 Because of the scarcity of certain materials, especially steel, cement, and explosives, contract conditions usually specify that they will be supplied by the PWD. This condition, however, is frequently limited by an "if available" clause. When the material cannot be delivered as needed, the contractor is forced to buy it on the open market at a much higher price than stated in the contract, or accept an extension in his work period with no compensation from the agency for the additional costs resulting from either choice.

Financial Considerations

4.7 Lack of capital and difficulty in obtaining credit are the primary factors limiting the ability of contractors to expand their capacity. The medium-size contractors who need financing to obtain equipment and perform-

ance guarantees to bid for larger contracts appear to be most severely handicapped, but the problem is industry-wide. Since the major banks were nationalized, they have followed a selective credit policy concentrating on a group of selected priority industries. The construction industry has not been elected into this group, and contractors therefore rarely have access to credit by major commercial banks, leaving only their own financial resources, or small banks and money lenders with exorbitant interest rates. In addition to working capital, a contractor must be able to show financial solvency, usually based on fixed assets, for registration, and must have cash or other assets acceptable to a bank for his bid bond and performance bond.

4.8 Provisions giving financial assistance to the contractor are very rarely included in PWD contract documents. Mobilization advances are never offered; advances on equipment and materials brought to the work site, while allowed by some States and agencies in varying amounts, are absent in many contracts. Escalation clauses to protect the contractor from unforeseeable cost increases are generally not included in the standard documents issued by PWDs. The largest contractors may obtain such provisions by making them a condition of tender. The smaller contractors are rarely subject to major price increases, since their contracts are usually for one year or less, and do not involve the furnishing of materials or use of a significant amount of equipment. The risk of unforeseen cost increases falls most heavily on the medium-size contractor who is not in a position to demand special conditions, but whose fixed price agreement covers two or more working seasons. The contractors also recognize that while they may request an escalation clause, the additional cost to the Government will be estimated and added to the bid price for evaluation. As a result, many contractors prefer to gamble on stable prices, and run the risk of a reduced profit.

4.9 In summary, it is evident that many of the circumstances under which the Indian construction industry operates do inhibit and limit its development. Contract conditions and other Government policies tend to continue the contractor's dependence on the technical resources and managerial competence of the Government agencies. The gradual removal of these impediments is within the Government's control, and would greatly expedite the further development of the industry.

5. THE EFFECT OF FOREIGN COMPETITION

5.1 Recognizing the strengths and weaknesses of the Indian construction industry as it presently exists, what would be the effect on that industry of foreign competition? The large specialized companies have already proven themselves capable of competing successfully with foreign firms for works outside India, and increased competition within India should only serve to strengthen these enterprises. The small labor contractors, on the other hand, would be insulated from foreign competition because of the specialized functions they perform. The question remains, however, whether the development of the medium-size contractors is sufficiently advanced to enable them to compete with non-Indian firms or whether foreign firms win a substantial portion of the construction market, preventing the Indian firms from gaining sufficient experience.

5.2 There are certainly some cases, especially when speed of execution is required for complex projects, in which foreign contractors can use technology that leads to lower construction costs than the methods applied by Indian contractors. They may also have advantages stemming from tight programming and better quality control. The foreign contractor can bring these advantages to bear on his bid price if contracts offered are sufficiently large. Our subjective judgment is that in the case of highway improvement and irrigation costs, the minimum size of the contract package would have to be \$2-3 million for these advantages to be possible.

5.3 Possible cost advantages of the foreign contractor are balanced by several factors which work in favor of the local contractor. First, while we must assume that the foreign contractor would base his bid on the efficient use of machines, he needs labor too. Although skilled labor is ample in India, the system of specialized labor contractors is intricate, and the foreign contractor may have to pay far higher wages, fringe benefits and sub-contractor profits than his local competitor. Similarly, the scarcity of materials has created a gray market, the rules and prices of which are unknown to the foreign contractor, and he will certainly not be able to acquire materials at the price a local contractor does. In addition, the foreign contractor must bear the high cost of mobilization including transport of equipment, parts and imported materials, and of the setting up of a local organization. Finally, the foreign contractor will find the traditional role of the PWDs and the existing contract conditions more cumbersome than the Indian contractors who are more used to them, and can more easily find a working arrangement with the engineer. A foreign contractor's premium for the ill-defined risks presented by existing circumstances is bound to be even higher than that of the large Indian contractor. However, even if we assume that contract conditions and other circumstances are suitably reformed, the foreign contractor is faced with considerable additional expenses that eat into his cost advantages.

5.4 The foreign contractor has to face these additional costs in many other countries. Whether his margin of cost advantages is sufficient, then, depends on the degree of development and the costs of the competing local industry. In India, his margin would, in most cases, not be sufficient to win bids. On the basis of very summary comparisons of hypothetical bids, we concluded that prices of foreign contractors might exceed those of local contractors by 10 to 30 percent, depending on the nature of works and the size of contracts offered. This judgment was confirmed by Indian contractors and consultants who felt, without exception, that foreign contractors would have little chance of winning bids for road improvement and irrigation works unless they enter into joint venture with an Indian partner. The Indian construction industry can therefore not be classified as an infant industry that would suffer from foreign competition or would need a general protective preference to have a chance in competition with foreign firms.

5.5 While the infant industry argument certainly does not apply to the Indian construction industry, it could be argued, conversely, that ICB should not be applied, since the likelihood is small that foreign firms would win any bids. However, there can be no certainty in a series of projects that foreign contractors, especially in joint venture with Indian partners, would abstain from bidding in all cases. The very process of bidding is a response to uncertainty about the best factor proportion and the lowest possible cost, and the decision whether to participate in the bidding should be left to the contractor, foreign or local.

6. THE COST OF CONSTRUCTING CIVIL WORKS

Evidence from Present Procurement Procedures

6.1 Having concluded that the Indian construction industry is not truly an infant industry needing protection from foreign competition and that measures to speed up its further development are in the control of the Government, we are still confronted with the additional argument that ICB for civil works procurement is undesirable, since foreign firms would increase the cost of civil works by substituting machines for abundant labor.

6.2 Recent experience with foreign contractors is rare in India ^{1/}; Government officials therefore develop the cost argument against foreign participation in analogy with the methods and costs of large Indian contractors. It is recognized that the large contractors applying machine-intensive methods are indispensable for complicated specialized works. The argument therefore concentrates on works which can be executed by either labor or machines. The Government contends that:

- (i) the majority of civil works projects include operations that can be undertaken by either labor or machines;
- (ii) that whenever equipment/labor substitutability exists, execution by labor is cheaper;
- (iii) the best way to assure the use of labor is the splitting of projects into segments small enough to discourage the use of machines by contractors.

Departmental engineers with whom we talked believed that they had factual evidence from past bidding procedures which proved that small contracts (with contract values often as low as \$50,000 equivalent) assure execution at the lowest possible cost. They cited several cases in which bids were invited for relatively large portions of road or canal construction, with the result that either bid prices substantially exceeded cost estimates, or no bids were received at all. When the bidding process was repeated with individual lots offered being much smaller, a large number of bids were received with prices coming much closer to the cost estimates.

^{1/} In its discussions with State PWD representatives and officers of the Central Government the Mission found no evidence of specific legal prohibitions to participation by foreign firms in civil works contracts in India. There are, however, a number of procedures which would impede access to this market. For example, any expatriate firm doing business in India must be approved by the Ministry of Finance and there appear to be no established rules for obtaining such approval. In addition, there are restrictive regulations regarding entry and residence permits for foreign nationals and strict controls on export of foreign currency (i.e. repatriation of profits).

6.3 Several reasons were given to explain these results. It was said that large enterprises would use machines for a large contract, and that their bids in the first round reflected the higher cost of doing so. The alternative of employing labor intensive techniques was impractical for large contractors, since they could not efficiently manage the enormous labor forces required. Moreover, large contractors had to maintain a more extensive permanent establishment, resulting in higher overhead costs, and their profit expectations were higher.

6.4 First of all, the fact that the rare offering of large contracts receives little response is quite understandable. It is unreasonable to expect large contractors to rush to bid in the few isolated cases where they are permitted to participate, when to do so requires that they build up a capacity for works which are normally the domain of the small labor-oriented contractors. Several of the largest contractors stated that they would be willing to acquire the required capacity and bid for such works if they could be assured of continuity of the chance to participate. Some of them planned to use machines, others would use labor sub-contractors. There is certainly no reason to assume that the large contractor would be incapable of utilizing strong labor forces through sub-contractors; this is precisely what PWDs do when they construct important structures such as the Nagarjuna-sagar Dam with a modified form of force account using labor contractors and departmental equipment.

6.5 The fact that the invitations to larger contractors were isolated cases without guarantee of continuity of work would itself make us doubt that small contracts necessarily lead to the lowest possible cost. However, there are other distortions in the cost comparison provided by the examples cited which reinforce our doubts. The first is that the conditions described in Chapter 4 - direction by the PWD engineer, absence of satisfactory arbitration and escalation clauses, uncertainties about material delivery, and inadequacy of specifications - constitute ill-defined risks which weigh more heavily on the larger contractor who, though better organized, is less flexible than the small labor contractor. Necessarily, he charges a premium for these risks in his price. Overheads of large contractors may, indeed, be higher than those of small contractors. But these overheads reflect the capability to direct operations with competent staff. In the case of execution by small contractors, this direction is carried out by the departmental engineers and other supervisory staff. Finally, the lower prices bid by smaller contractors can perhaps be explained by their inability to prepare bids based on analytical costing. The departmental cost estimate is to them a valuable yardstick in preparing a bid. If they subsequently find that they cannot meet specifications, they reduce quality: as they say, they "stoop a little". The larger contractor who trades more on his reputation is less inclined to sacrifice quality, knows what it costs, and submits his bid accordingly.

6.6 The evidence, therefore, does not necessarily suggest that tendering small lots, which excludes large contractors, leads to the lowest possible cost of constructing civil works. This is not to say that large contractors,

local or foreign, would necessarily be able to offer lower prices. We attempted to work out for selected operations a comparison of costs associated with execution by local and foreign contractors using different methods, assuming that the distortions described in the previous paragraph are corrected. Although the quantitative data available were inadequate for exact comparison, they sufficed to demonstrate that the differences between costs associated with different execution methods are not necessarily so large as to warrant exclusion of one group of contractors from the bidding process. Much more research is needed on the costs of different factor proportions in civil works construction, and the Government officials assured us that India would be willing to participate in the on-site, cost-monitoring phase of the labor-equipment study which is being undertaken with Bank financing in several countries. From this study, as well as from others being undertaken concurrently, such as the Highway Design Study, general data can be expected which would be particularly useful in comparison of alternative designs. However, once the design is selected, contractors should have the option to demonstrate in open competition the cost efficiency of the particular method they intend to use for a particular project.

Cost Comparison Through the Bidding Process

6.7 Many officials, especially in the State PWDs, were receptive to the argument that a fair bidding process should be the ultimate cost test of different construction methods used by contractors of different size. The test could be performed by applying a technique which has been used in Bank-financed projects in other countries. In essence, it consists of slicing a project into individual segments small enough to attract the interest of small labor-oriented contractors, with larger contractors simultaneously having the option to bid for packages of several or all of the project segments. This procedure ensures the widest possible competition, and encourages smaller enterprises to develop the capacity for executing larger contracts. Foreign firms would be excluded only if the nature of the works did not permit contract packages large enough to interest them. This would be true for works closely resembling maintenance, in which case force account may be the best choice, or for low-standard market roads or canal rehabilitation in an operating irrigation scheme, which may best be reserved for small local contractors. On the other hand, small contractors must be excluded from the execution of works which cannot be divided without loss of efficiency, such as shell dams, bridges, tunnels, or the laying of asphaltic concrete road surface to close tolerances.

6.8 The small size of the individual project segment is critical for the degree of competition attainable. It must be large enough, however, to permit efficient construction to specified quality standards. This is a question of judgment which has implications for supervision costs. We believe that quality would not be assured in road construction, for example, if the value of the smallest contract unit should fall below \$500,000 (which would require separate contracts for surfacing). By Indian standards, this is already sizable, ruling out a multitude of very small contractors. From

the point of the PWDs, the potential for savings in supervision cost and the resulting increase in construction which could be handled by the present Government engineering staff, the trend towards larger contract units and packages should be welcome. From the Bank's point of view, while the size of the suggested contract units is small, and would necessitate increased supervision efforts by staff and consultants, it offers increased efficiency in the long-run through the development of the local construction industry.

6.9 The degree of competition is also dependent on the willingness of larger contractors to bid for works which have so far been left to small contractors. Greater participation would require a reform of contract conditions and the removal of other impediments. This would make works like road or canal construction more attractive to the larger specialized firms, and simultaneously provide opportunities for small and medium-size firms to develop their capacities to compete with the few specialized firms who now monopolize the most lucrative part of the construction market. Failure to improve the circumstances under which the industry operates would perpetuate the polarization between the two main groups of contractors, and an undistorted test of different construction methods would not be possible.

Economic Distortions

6.10 The bidding test is limited to a comparison of price offers based on financial costs as perceived by the bidder. However, it is an acceptable assumption that, in India, the financial costs of productive factors do not reflect their relative scarcity: i.e. labor is more abundant than wages indicate, and that the scarcity of domestic capital goods and foreign exchange is not adequately measured by their prices. The present procurement methods, with the emphasis on small contractors and the exclusion of foreign firms, constitute an attempt to correct the distortions administratively. For works which can be executed by labor or machines, they come close to prescribing the use of labor and prohibiting the use of machines without a case by case test of the optimum factor mix. The use of the price system in the bidding test, however, can bring about the optimum factor mix if the price signals are corrected to reflect the scarcities of productive factors.

6.11 Since the bidding test normally provides a cost comparison for the execution of a specific design, care must be taken in project preparation to avoid the selection of designs which would demand execution methods that are uneconomic, given the relative scarcities of production factors in India. It will therefore be necessary to conduct cost comparisons applying shadow rates for capital and labor for different designs. ^{1/} Shadow rates are of course an imperfect method to correct price distortions; their isolated application in one sector of the economy can create new distortions in an-

^{1/} Choice between alternative design should also be influenced by the related construction periods, since savings in construction costs may be outweighed by benefits lost.

other. However, in the absence of corrective macro-economic policy, they provide the best approximation to correct prices for proper resource allocation. In many cases, it will be sufficient to apply shadow rates at the design stage, eliminating in the execution stage the possibility of excessive use of scarce factors on designs requiring them. However, there will be other works which, even after application of shadow rates at the design stage, leave factor proportions open. In these cases, the validity of the test is only assured if the use of labor is not discouraged by contractors calculating wages which are in excess of the economic cost of labor; the application of shadow rates in procurement may therefore also be required.

6.12 Any method of applying shadow rates at the procurement stage introduces some complications into the bidding and payment processes. Annex IV presents the outlines of a proposal for the use of shadow rates in procurement that is designed to minimize these complications. In essence, it is a system under which the contract would be awarded to the bidder proposing the lowest economic cost; the contract payments, however, would amount to the full financial value of the bid. Tender documents would specify the shadow rates for labor, and contractors would be asked to accompany their financial bid with a statement showing required payments for the specific amount of labor to be used in execution. For bid comparison, this labor component would be reduced by applying the specified shadow rate for labor to determine the economic cost of the bid.

6.13 While we would expect the contractor, during execution, to adhere closely to the factor mix he originally proposed, it would be impossible to deny him a reasonable amount of flexibility to adapt his methods to unforeseen circumstances which become evident as the work progresses. The proposed system would deal with this problem by facing the contractor with a financial disincentive to modify factor proportions excessively. If he reduced the labor component, total payments to him would be reduced so that he could only apply the equivalent of the economic opportunity cost of replaced labor, not the full financial costs, to defraying the costs of additional equipment. This assures that any reduction of the labor component leads to a reduction of the financial value of the contract, and that any new factor proportion results in the same economic cost as that associated with the factor proportion specified in the original winning bid.

6.14 The financial cost of the contract leading to the lowest economic cost is likely to be higher than that of the lowest bid in financial terms. Appraisal missions evaluating projects to which the system is to be applied would have to base their project cost estimates on an assessment of the financial cost of executing the project with the economically preferable factor combination. Against this project cost, disbursements would be made as per an agreed percentage rate.

6.15 In discussions with Government officials, we gained the impression that while the logic of shadow pricing was accepted, the application of shadow rates was viewed with caution, probably because they could not be applied exclusively to Bank-financed projects, and the increase in financial cost of projects not financed by the Bank would create a budgetary problem. Since the shadow rate influences the financial cost of the project, it might be necessary to limit the price adjustment in order to limit the increase in financial cost of projects. We would suggest leaving the decision to adopt the system, as well as the determination of the appropriate price adjustment, to member governments concerned, provided that the shadow rate is not lower than, say 75% of labor wages.

The Indian construction industry is a multi-sectored industry, diversified to undertake a wide range of construction work, from the small-scale rehabilitation project to large and complex projects such as roads and dams. There is certainly scope for further development, especially in the medium-scale contractors who have only recently emerged from being merely an extension of departmental forces. Their development is hampered by the conditions of contract and other Government policies which were developed as long as most contractors were merely organizers of labor operating under the strict direction of departmental engineers. The continued existence of these conditions is incompatible with the growth of construction enterprises that are developing the technical and managerial capacity to do their own work and operate as independent commercial entities. In spite of these handicaps, however, Indian contractors could successfully compete with foreign enterprises, since they enjoy a margin of protection that stems from the additional costs foreign enterprises would have to incur to establish themselves and to acquire materials and staff under the complex rules of a planned economy. It would therefore not be correct to speak of the Indian construction industry as an infant industry that must be sheltered from foreign competition; it does not even require preferences to have a chance in competition with foreign firms.

We also found no convincing evidence for the contention that wide competition among enterprises of different sizes using different construction methods would increase the economic costs of civil works construction by substituting costly machines for abundant labor. Present procurement procedures are an attempt to ensure the maximum use of labor, substitutively by fragmenting work into very small segments for which large contractors using machines cannot bid. However, the evidence that this necessarily leads to the lowest bid is not conclusive; it cannot be excluded, therefore, that larger enterprises, foreign or local, could offer lower prices. It is preferable to invite wide competition in the bidding process as a test from which the optimum factor mix resulting in lowest possible construction cost would emerge.

This report on the pricing of civil works into segments as well as compatible with efficient execution to permit the participation by small local firms using predominantly labor; simultaneously, large contractors should have the option to bid for several or all of the project segments. Foreign firms could properly participate in the bidding process whenever the value of the work permitted contract packages large enough to attract their interest.

7. CONCLUSIONS AND RECOMMENDATIONS

7.1 The information collected by the mission on the status of development of the Indian construction industry, the circumstances under which it operates, and on the results of present procurement procedures in India, leads to the conclusion that there are no economic or technical reasons with which to justify to the Board a deviation from the Bank's requirement of ICB for civil works procurement.

7.2 The Indian construction industry is sufficiently developed and diversified to undertake a wide range of construction works, from the smallest rehabilitation project to large and complex projects such as harbors and tunnels. There is certainly scope for further development, especially among the medium-size contractors who have only recently emerged from being merely an extension of departmental forces. Their development is hampered by the conditions of contract and other Government policies which were appropriate as long as most contractors were merely organizers of labor operating under the strict direction of departmental engineers. The continued existence of these conditions is incompatible with the growth of construction enterprises that are developing the technical and managerial capacity to direct their own work and operate as independent commercial entities. In spite of these inefficiencies, however, Indian contractors could successfully compete with foreign enterprises, since they enjoy a margin of protection that stems from the additional costs foreign enterprises would have to incur to establish themselves and to acquire materials and staff under the complex rules of a planned economy. It would therefore not be correct to speak of the Indian construction industry as an infant industry that must be sheltered from foreign competition; it does not even require preferences to have a fair chance in competition with foreign firms.

7.3 We also found no convincing evidence for the contention that wide competition among enterprises of different sizes using different construction methods would increase the economic costs of civil works construction by substituting costly machines for abundant labor. Present procurement procedures are an attempt to ensure the maximum use of labor administratively by fragmenting works into very small segments for which larger contractors using machines cannot bid. However, the evidence that this necessarily leads to the lowest bid is not conclusive; it cannot be excluded, therefore, that larger enterprises, foreign or local, could offer lower prices. It is preferable to invite wide competition in the bidding process as a test from which the optimum factor mix resulting in lowest possible construction cost would emerge.

7.4 This requires the slicing of civil works into segments as small as compatible with efficient execution to permit the participation by small local firms using predominantly labor; simultaneously, large contractors should have the option to bid for several or all of the project segments. Foreign firms could properly participate in the bidding test whenever the value of the works permitted contract packages large enough to attract their interest.

7.5 The use of the bidding test leads to the optimum resource allocation only if prices adequately reflect the relative scarcities of production factors. The application of shadow rates may therefore be required in the comparison between alternative designs to avoid the selection of design requiring the excessive use of scarce factors. In addition, wherever the selected design leaves open the relative proportion of labor and machines, care must be taken not to discourage the use of labor in the execution stage. This could best be achieved by applying shadow rates to the labor component of bids with the award made to the lowest bidder in economic terms, although it is likely that this will increase the financial cost of projects.

7.6 The mission discussed its findings with officials of the Ministry of Finance, the central technical departments, and State PWDs. While the reaction was far from uniform, the common review of the information collected and the discussions about conclusions to be drawn from it helped to close the gap in understanding in many instances. We were frequently told that it was difficult to argue against the logic of our conclusions. This was also the case in a concluding meeting with officials of the Ministry of Finance. They conceded that the infant industry argument is weak, that removal of impediments for the further development is within the control of the Government, and that the Government would undertake the necessary reforms of conditions and policies. In this context, they pointed to the need for better use of the existing capacities of the construction industry to meet the increasing Five-Year Plan targets in irrigation and transport. This accords with the impression we gained from discussions with PWD officials who are realizing that a gradual reform of contract conditions is required if the PWDs are to become partners of the industry rather than to direct contractors in the execution of their work. Officials of the Ministry of Finance further conceded that the slice and package procedure provides an ideal test for the cost of execution methods used by local or foreign contractors which would not discourage the use of labor if adjustments for the difference between financial and economic costs are provided.

7.7 While government officials thus confirmed that there are no technical or economic reasons to reject international competition for civil works in India, they emphasized that it remained unacceptable for political reasons. Although the probability of foreign contractors winning awards was remote, the Government remained concerned about the outside chance of some foreign contractors accepting losses to win a bid. Even if those contractors used as much labor as any Indian contractor, it was suggested that the sight of a foreign enterprise doing what Indian enterprises could also do would raise a political storm. While conceding that ICB is not harmful to the development of India, Government officials doubt that benefits resulting from it are worth the political inconvenience.

7.8 Since the mission found no technical or economic argument with which to justify to the Executive Directors a deviation from ICB for suitable civil works, and since Government officials concede that ICB is a political issue, the mission's recommendations to Management must be to treat the problem as a political one which can ultimately be resolved only at the highest Government level. General preferences for Indian civil works contractors, who differ widely in the use of labor, have been found unwarranted, but the application of shadow rates for labor might make ICB more acceptable since it guarantees recognition of the employment problem and provides some measure of protection to the Indian enterprises as long as they are more prone to use labor than foreign firms.

CIVIL WORKS PROCUREMENT
UNDER
BANK GROUP FINANCED PROJECTS
(FY67 - FY71)

- (a) By Sector
- (b) By Country
- (c) By Project

CIVIL WORKS PROCUREMENT BY SECTOR ^{1/}
(FY67 - FY71)

(US\$ million equivalent)

Sector	(1)	(2)		(3)		(4)		(5)		(6)		(7)		(8)		(9)		(10)			
	Total Costs ^{2/}	Bank/IDA ^{3/} Financing ^{2/}	% ^{1/}	Amount	% ^{1/}	Amount	% ^{1/}	Amount	% ^{1/}	Amount	% ^{3/}	Amount	% ^{6/}	Amount	% ^{6/}	Amount	% ^{6/}	Amount	% ^{6/}	Total Local Procurement ⁴⁺⁵⁺⁹	% ⁴⁺⁵⁺⁶
AGRICULTURE	760.40	278.70	36.7	524.80	69.0	123.50	16.2	112.10	14.7	235.80	44.6	60.90	25.8	34.90	14.8	140.00	59.4	375.60	79.7		
EDUCATION	320.60	141.17	44.0	320.60	100.0	-	-	-	-	81.25	25.8	17.37	21.4	-	-	63.88	78.6	63.88	78.6		
WATER	317.70	117.01	36.8	316.50	99.6	-	-	1.20	0.4	54.54	17.2	12.05	22.1	4.50	8.3	37.99	69.6	39.19	70.3		
POWER	734.57	289.47	39.4	718.07	97.7	-	-	16.50	2.3	509.82	69.4	283.35	55.6	78.15	15.3	148.28	29.1	164.79	31.3		
TRANSPORT	2,318.90	1,011.30	43.6	2,246.30	96.9	66.90	2.9	5.70	0.2	1,384.41	61.6	494.56	35.7	96.50	7.0	793.35	57.3	865.95	59.4		
TOTALS	<u>4,452.17</u>	<u>1,837.65</u>	<u>41.3</u>	<u>4,126.27</u>	<u>92.7</u>	<u>190.40</u>	<u>4.3</u>	<u>135.50</u>	<u>3.0</u>	<u>2,265.82</u>	<u>54.8</u>	<u>868.23</u>	<u>38.3</u>	<u>214.05</u>	<u>9.5</u>	<u>1,183.50</u>	<u>52.2</u>	<u>1,509.41</u>	<u>58.2</u>		

^{1/} Includes projects with civil works elements exceeding \$3 million.

^{2/} Civil works elements only, as per Appraisal Report, including contingencies.

^{3/} As per disbursement schedule in Loan/Credit documents.

CIVIL WORKS PROCUREMENT IN SELECTED COUNTRIES^{1/}
(FY67 - FY71)
(US\$ million equivalent)

Country	(1)	(2)		(3)		(4)		(5)		(6)		(7)		(8)		(9)	
	Total Costs ^{2/}	Procurement by ICB	% 2	Procurement by ICB	% 3	Procurement by FA	% 4	Procurement awarded ICB	% 5	ICB won by Foreign Firms	% 6	ICB won by Foreign/Local	% 7	ICB won by Local	% 8	Total Local Procurement	% 3+4+8
ARGENTINA	433.9	433.9	100	-	-	-	-	181.6	41.9	1.4	0.8	67.8	37.3	112.4	61.9	112.4	61.9
BRAZIL	357.2	357.2	100	-	-	-	-	216.0	60.5	-	-	2.7	1.3	213.3	98.8	213.3	98.8
COLOMBIA	295.4	291.2	98.6	3.0	1.0	1.2	0.4	181.85	62.5	-	-	76.1	41.9	105.75	58.2	109.95	59.1
INDIA	69.6	-	-	18.5	26.6	51.1	73.4	-	-	-	-	-	-	-	-	69.6	100
INDONESIA	101.3	71.0	70.1	23.8	23.5	6.5	6.4	1.4	1.2	-	-	-	-	1.4	100	31.7	100
IRAN	161.7	155.8	96.4	-	-	5.9	3.7	17.0	10.9	-	-	15.4	90.6	1.6	9.4	7.5	32.8
IVORY COAST	69.2	62.3	90	-	-	6.9	10.0	14.0	22.5	10.3	73.6	3.7	26.4	-	-	6.9	33.0
KENYA	95.62	93.12	97.4	-	-	2.5	2.6	81.05	87.0	43.59	53.8	18.99	23.4	18.47	22.8	20.97	25.1
KOREA	164.6	152.9	92.9	11.7	7.1	-	-	21.06	12.8	-	-	-	-	21.06	100	32.76	100
MALAWI	27.15	23.45	86.4	-	-	3.7	13.6	22.62	96.5	12.2	53.9	4.52	20.0	5.9	26.1	9.6	36.5
MALAYSIA	49.0	49.0	100	-	-	-	-	24.94	50.9	-	-	-	-	24.94	100	24.94	100
MEXICO	270.9	230.2	85.0	40.7	15.0	-	-	148.6	64.6	-	-	-	-	148.6	100	189.3	100
MOROCCO	90.9	90.9	100	-	-	-	-	28.5	31.4	-	-	22.0	77.2	6.5	22.8	6.5	22.8
PAKISTAN	81.4	73.5	90.3	6.0	7.4	1.9	2.3	17.3	23.5	14.2	82.1	-	-	3.1	17.9	11.0	43.7
PHILIPPINES	59.4	53.9	90.7	-	-	5.5	9.3	29.4	54.6	-	-	-	-	29.4	100	34.9	100
TANZANIA	79.01	77.11	97.6	1.9	2.4	-	-	69.4	90.0	30.90	44.5	35.3	50.9	3.2	4.6	5.1	7.2
THAILAND	177.3	167.3	94.3	-	-	10.0	5.6	116.18	69.4	97.88	84.3	18.3	15.8	-	-	10.0	7.9
VENEZUELA	84.3	83.3	98.8	1.0	1.2	-	-	41.87	50.3	-	-	2.1	5.0	39.77	95.0	40.77	95.1
YUGOSLAVIA	490.1	452.2	92.3	37.9	7.7	-	-	277.6	61.4	-	-	-	-	277.6	100	315.5	100
ZAMBIA	110.9	110.9	100	-	-	-	-	74.96	67.6	70.58	94.2	-	-	4.38	5.8	4.38	5.8
TOTALS	3,268.88	3,029.18	92.7	144.5	4.4	95.2	2.9	1,565.33	51.7	281.05	18.0	266.91	17.1	1,017.37	65.0	1,257.07	69.6

^{1/} Includes projects with civil works elements exceeding \$3 million.

^{2/} Civil works elements only, as per Appraisal Report, including contingencies.

AGRICULTURE PROJECTS DEPARTMENT
 MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS ^{1/}

(In US\$ million)

Project Data (Country, Project, Loan/Credit No., Date)	Financing (US\$)		Principal Type of Work		Proposed Procurement	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB	Notes
	Total Cost ^{2/}	Bank/IDA Financing ^{3/}	Type	Amount ^{2/}	(Force Account, Local Compe- titive Bidding, or ICB)	Smallest	Largest ^{4/}		(Nationality and total contracts won for each type of work) ^{5/}	
<u>MALAGASY</u>										
Lake Alaotra Irrigation IDA 214-MAG FY71 August 17, 1970 US\$ 5 million (AGPD1)	4.5	3.7	Rehab and extension of system	4.5	ICB	-	4.5	-	French/Malagasy	4.4
<u>MALAWI</u>										
Lilongwe Agric Development IDA 113-MA1 FY68 February 5, 1968 US\$ 6 million (AGPG2)	6.1	1.4*	Buildings	2.4	ICB	0.05	NA	-	Malawian	0.9
			Roads, drains land development	3.7	Force	-	3.4	-	Not given	-
<u>TANZANIA</u>										
Smallholder Tobacco IDA 217-TAN FY71 October 9, 1970 US\$ 9 million (AGPG2)	5.5	1.8	Processing facilities	3.6	ICB	NA	-	-	-	-
			Roads and buildings	1.9	Local	NA	-	Small size	-	-

^{1/} Includes projects with civil works elements exceeding \$3 million.

^{2/} Civil works elements only, as per Appraisal Report, including contingencies.

^{3/} As per disbursement schedule in Loan/Credit documents.

^{4/} Includes any combination of project elements which could be awarded to a single contractor as a single contract.

^{5/} The total value of awarded contracts does not necessarily agree with appraisal cost estimates.

AGRICULTURE PROJECTS DEPARTMENT
MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS
(In US\$ million)

<u>Project Data</u> (Country, Project Loan/Credit No., Date)	<u>Financing (US\$)</u>		<u>Principal Type of Work</u> Type Amount		<u>Proposed Procurement</u>			<u>Reasons for Exemption from ICB</u>	<u>Results of ICB</u>		<u>Notes</u>
	<u>Total Cost</u>	<u>Bank/IDA Financing</u>			<u>(Force Account, Local Compe- titive Bidding, or ICB)</u>	<u>Proposed Contract Size</u> Smallest Largest			<u>(Nationality and total contracts won for each type of work)</u>		
<u>CAMEROON</u>											
East Cameroon Oil Palm IBRD 593-CM FY69 April 15, 1969 US\$ 7.9 million (AGPGL)	6.9	3.2	Clearing	3.1	ICB	0.2	2.4	-	French	2.3	
			Factory, buildings	3.8	ICB	0.1	2.9	-			
<u>DAHOMY</u>											
Hinvi Agric. Dev. IDA 144-DA FY69 March 5, 1969 US\$ 4.6 million (AGPGL)	3.0	2.8	Factory buildings, wells	3.0	ICB	0.1	2.5	-	Not yet known		
<u>IVORY COAST</u>											
Oil Palm and Coconuts I and II IBRD 611, 612, 613 759 and 760 IVC FY69 and FY71 June 13, 1969 and June 22, 1971 Total US\$ 24.1 million (AGPGL)	21.4	10.2	Factories	12.0	ICB	0.1	4.0	-	Luxembourg	7.1	
			Land clearing	2.5	ICB	NA	NA	-	France	3.2	
			Land clearing	4.7	Force	-	4.7	-			Small size of works
			Buildings	1.7	Force	-	1.7	-			Small size of works
			Roads	0.5	Force						Small size of works

AGRICULTURE PROJECTS DEPARTMENT
MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS
(In US\$ million)

Project Data (Country, Project Loan/Credit No, Date)	Financing (US\$)		Principal Type of Work		Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)	Notes
	Total Cost	IBRD/IDA Financing	Type	Amount		Smallest	Largest			
<u>INDONESIA</u>										
North Sumatra Estate I IDA 155-IND FY69 June 20, 1969 US\$ 16 million (AGPG1)	7.2	4.5	Factory Buildings	5.2 2.0	ICB Local	0.1 0.1	1.6 0.2	- Small size of contracts and low FE content	Not yet known -	
North Sumatra Estates II IDA 194-IND FY70 June 15, 1970 US\$ 17 million (AGPG1)	6.7	2.9	Factory Buildings, roads	3.8 2.9	ICB Local	0.1 0.1	1.8 0.2	- Small size of contract and low FE content	Not yet known -	
Irrigation Rehab II IDA 195-IND FY70 June 15, 1970 US\$ 18.5 million (AGPD2)	26.6	8.7	Completion and rehab of canals/ structures	21.5	ICB	NA	4.5		Indonesia	1.4
			Buildings	1.1	ICB	NA	1.1		Bids invited	
			Minor canals	4.0	Force	-	4.0	To supplement and encourage farmer self- help.	-	Covers 3 of 3 contracts
Irrigation Rehab III IDA 220-IND FY71 Mar 6, 1970 US\$ 14.5 million (AGPD2)	17.6*	5.7	Rehab canals and structures	10.1	Local	NA	NA	Uncertainties of scope of works.	-	*Equipment \$1 mil- lion additional
			Roads, buildings	4	Force	-	2.5	Small and scattered.	-	
Seeds IDA 246-IND FY71 May 19, 1971 US\$ 7.5 million (AGPG2)	4.5	2.7	Irrigation	0.7	ICB	NA	NA	Small and scattered		
			Irrigation	1.2	Local	NA	NA	Small and scattered		
			Land development	0.1	Local	NA	NA	Small and scattered		
			Factories	2.2	Local	NA	NA	Small and scattered		
			Buildings	0.3	Local	NA	NA	Small and scattered		
<u>KOREA</u>										
Pyeongtaek-Kumgang Irrigation IBRD 600-KO FY69 May 23, 1969 US\$ 45 million (AGPD1)	60.9	19.7*	Sea dykes, canals	49.2	ICB	NA	NA	-	Korean(6)	19.2
			Land leveling, buildings, roads	11.7	Local	NA	NA	Small nature of works	-	*Equipment US\$ 11.5 million additional

AGRICULTURE PROJECTS DEPARTMENT
MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

Project Data (Country, Project Loan/Credit No., Date)	Financing (US\$)		Principal Type of Work		Proposed Procurement	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB	Notes
	Total Cost	Bank/IDA Financing	Type	Amount	(Force Account, Local Compe- titive Bidding, or ICB)	Smallest	Largest		(Nationality and total contracts won for each type of work)	
<u>MALAYSIA</u>										
Kemubu Irrigation IBRD 500-MA FY67 June 15, 1967 US\$ 10 million (AGPD1)	15.3	8.2	Pumping station, dykes, canals buildings	15.3	ICB	0.2	NA	-	Malaysian (2)	17.9
<u>PHILIPPINES</u>										
Pampanga Irrigation IBRD 637-PH FY70 August 18, 1969 US\$ 34.0 million (AGPD2)	52.3	20.1*	Dam, Canals, roads Rehab existing canals	32.7 14.1 5.5*	ICB ICB Force	32.7 1.1 -	32.7 9.7 5.5*	- - Small, scattered, seasonal	Philippines Bids invited -	29.4
<u>THAILAND</u>										
Phasom Dam IBRD 514-TH FY68 September 19, 1967 US\$ 26 million (AGPD1)	52.0	17.0	Dam and associated works Saddle dams Roads, bridges and camp facilities	42.0 3.4 6.6	ICB Force Force	NA NA NA	NA NA NA	- Small works and exper- ience in similar works - ditto -	Italian	28.4

* Equipment \$2.5 million additional.

AGRICULTURE PROJECTS DEPARTMENT
MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

Project Data (Country, Project, Loan/Credit No., Date)	Financing US\$		Principal Type of Work		Proposed Procurement	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		Notes
	Total Cost	Bank/IDA Financing	Type	Amount	(Force Account, Local Competitive Bidding, or ICB)	Smallest	Largest				
AFGHANISTAN											
Khanabad Irrigation IDA 248-AF FY71 June 11, 1971 US\$ 4.7 million (AGPD2)	4.7	3.3	Weir and canals	4.7	ICB	4.7	4.7	-	Not effective		
CEYLON											
Drainage Project IDA 168-CE FY70 November 13, 1969 US\$ 2.5 million (AGPD1)	3.6	0.9	Drains, roads	3.6	Local and force	NA	NA	Small size of works	-		
Mahaweli Ganja Development IBRD 653CE FY70 US\$ 14.5 million IDA 174CE FY70 US\$ 14.5 million January 30, 1970 (AGPD1)	32.9	14.9	Dam Canals etc. Weir, river protection etc.	16.7 11.1 5.1	ICB ICB Local or force	16.7 9.6	16.7 11.1 5.1	- - Small and scattered	Yugoslav Not awarded	14.2	
INDIA											
Tarai Seeds IBRD 614-IN FY69 June 18, 1971 US\$ 13 million (AGPR2)	8.7	1.0*	Buildings Land levelling Irrigation canals	2.1 3.7* 2.9	Local Local Local	NA NA NA	NA NA NA	Small size of works Small scattered and seasonal for individual farmers NA	- - -		*Equipment US\$6.8 million additional
Kadana Irrigation IDA 176-IN FY70 February 9, 1970 US\$ 35 million (AGPD2)	51.1*	32.5*	Dam Canals, drains, roads Land levelling	15.0 30.5 5.6	Local and force Local and/or force Force	15.0	15.0 30.5 5.6	Contract awarded prior to appraisal Contracts awarded and small scattered works Small and scattered	- - -		*Equipment US\$2.5 million additional
Andhra Pradesh Agric. Cr. IDA 226-IN FY71 January 8, 1971 US\$ 24.4 million (AGPCR)	9.8	5.2	Land levelling	9.8	Local	NA	NA	Generally small and labor intensive works on small farms	-		
IRAN											
Gharzin Irrigation IBRD 517-IRN FY68 October 17, 1967 US\$ 20 million (AGPD1)	16.5*	3.7*	Irrigation system and buildings Buildings	10.6 5.9	ICB Local and force	0.2 NA	NA NA	- Small nature of works	Iranian (2)	1.4	*Equipment US\$7 million additional
Dez Irrigation I IBRD 594-IRN FY69 April 18, 1969 US\$ 30 million (AGPD1)	51.6	13.2	Canals, drains Land levelling Roads & Buildings	37.2 8.4 6.0	ICB ICB ICB	0.2	NA	-	Ital/Iran Iranian	15.4 0.2	
PAKISTAN											
Chandpur II Irrigation IDA 184-PAK FY70 May 14, 1970 US\$ 13 million (Appraised by AGPD2, transferred to SPPEP)	9.1*	6.7*	Regulators Embankments, buildings Dredging	2.7 4.5* 1.9*	ICB Local Force	2.7 0.3	2.7 2.9 1.9	- Small, insufficient inter- est to foreign bidders Existing department (EPWAPDA) forces employed on ongoing project	Pakistan (2)	3.1	*Equipment US\$ 2 million additional

AGRICULTURE PROJECTS DEPARTMENT
 MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS
 (in US\$ million)

Project Data (Country, Project Loan/Credit No. Date)	Financing (US\$)		Principal Type of Work		Proposed Procurement (Force Account, Local Compe- titive Bidding, or ICB)	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		N o t e s
	Total Cost	Bank/IDA Financing	Type	Amount		Smallest	Largest				
MOROCCO											
Rehab-Sebou Irrigation IBRD 643-MOR FY70 Nov. 13, 1969 US\$ 46 million (AGPD1)	74.1	15.2	Dam	19.4	ICB	1.0	NA	-	French/Moroccan	15.1	
			Pump station, canal drains, land levelling roads	54.7	ICB	1.0	NA	-			
SPAIN											
Agricultural Research IBRD 768-SP FY71 June 1971 US\$ 12.7 million (AGPLK)	6.2	2.7	Buildings	6.2	ICB	NA	NA	-	Not awarded		
TURKEY											
Seyhan Irrigation II IBRD 587-TU, FY69 US\$ 12 million IDA 143-TU, FY69 US\$ 12 million Feb 18, 1969 (AGPD1)	41.6	9.3	Canals and drains	29.2	ICB		NA	-	Turkey (6)	21.9	*Equipment US\$ 8.8 million additional
			Land levelling; drainage, roads etc.	9.9	Force	NA	NA	Small nature of works			
			- ditto -	1.1	Local	-	1.0	Small nature of works			
			New head works	0.7	Force	NA	NA	Small nature of works			
			O & M facilities	0.7	Local	NA	NA	Small nature of works			
UAR											
Nile Delta Drainage IDA 181-UAR, FY70 April 17, 1970 US\$ 26 million (AGPD2)	38.8	6.5*	Pump stations	14.3	ICB	14.3	14.3		Bids invited		*Equipment US\$ 13.9 million additional
			Drains	24.5	Local	NA	NA	Excess capacity local contractors	-		

AGRICULTURE PROJECTS DEPARTMENT
MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECT

(In US\$ million)

Project Data (Country, Project, Loan/Credit No., Date)	Financing (US\$)		Principal Type of Work		Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		Notes
	Total Cost	Bank/IDA Financing	Type	Amount		Smallest	Largest				
<u>GUAYANA</u>											
Sea Defence IBRD 599-GU FY69 September 27, 1968 US\$ 5 million (appraised by AGPD1 transferred to SPPEP)	4.6	3.1*	Sea defences	4.6	ICB	0.5	4.6	-	UK	5.7	x Equipment \$0.22 million additional
<u>MEXICO</u>											
Rio Colorado Irrigation IBRD 527-ME FY68 January 26, 1968 US\$ 25 million (AGPD1)	82.9	25.0	Canals, drains, roads, buildings	66.3	ICB	1.6	NA		Mexican (18)	39.4	
			Canals, drains, roads, buildings	16.6	Local	NA	NA	Long established practice accepted in previous Bank financed projects			
Livestock and Agricultural Development IBRD 610-ME FY69 June, 1969 US\$ 65 million (AGPLK)	10.0	4.5	Irrigation and other rural works	10.0	Local	NA	NA	Small and scattered works and phasing of loans to sub- borrowers	-		
Livestock and Agricultural Development IBRD 747-ME FY71 June, 1971 US\$ 75 million (AGPLK)	4.5	2.0	Construction rural works	4.5	Local	NA	NA	Small nature of works and phasing of loans to sub- borrowers	-		
<u>TRINIDAD & TOBAGO</u>											
Crown Lands Development IBRD 486-TR FY67 March 10, 1967 US\$ 5.0 million (AGP G2)	4.0	3.1	Buildings and Facilities)	2.7	Local	NA	NA	None given	-		
			Land Clearance)	1.3	Local and Force	NA	NA	Small nature of works	-		
<u>COLOMBIA</u>											
Atlantico No 3 Irrigation IBRD 502-CO FY67 June 29, 1967 US\$ 9 million (AGFD1)	5.6	4.9	Irrigation and flood protection	5.6	ICB	NA	NA	-	Colombian (4)	3.7	
Caqueta Land Settlement IBRD 739-CO FY71 May 28, 1971 US\$ 8.1 million (AGFD1)	9.6	5.1	Roads	6.6	ICB	0.2	1.9	-	Colombian (1)	1.5	
			Land clearing	0.9	Local	0.1	0.3	Project location and size of contract	-		
			Buildings etc.	2.1	Local	0.1	0.3	Project location and size of contract	-		

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

EDUCATION PROJECTS DEPARTMENT

Project Data (Country, Project Loan/Credit No., Date)	Financing (US\$)		Principal Type of Work		Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (US\$) (Nationality and Total Contracts Won for Each Type of Work)		Notes
	Total Cost	Bank Financing	Type	Amount		Smallest	Largest				
<u>JAMAICA</u>											
Loan 468-JM September 30, 1966	13.3	9.5	Schools Construction & Site Development	13.3	ICB	0.05	9.5	-	Canadian Local	11.3 3.1	
<u>MALAWI</u>											
Credit 102-MAI May 4, 1967	4.8	4.3	Schools Construction & Site Development	4.8	ICB	0.3	1.2	-	Local	5.0	
<u>MALAYSIA</u>											
Loan 599-MA May 23, 1969	10.8	5.7	Schools Construction & Site Development	10.8	ICB	0.3	0.7	-	Local	4.0	
<u>TANZANIA II</u>											
Credit 149-TA May 29, 1969	5.2	3.4	Schools Construction & Site Development	5.2	ICB	0.03	2.0	-	Local	3.2	
<u>IRAN</u>											
Loan 718-IRN December 18, 1970	29.2	8.5	Schools Construction & Site Development	29.2	ICB	0.5	4.5	-		No contract awards to date.	
<u>ETHIOPIA II</u>											
Credit 243-ET May 6, 1971	8.4	2.2	Schools Construction & Site Development	8.4	ICB	0.02	1.4	-		No contract awards to date.	
<u>CHINA</u>											
Loan 691-CHA June 19, 1971	5.9	1.0	Schools Construction & Site Development	5.9	ICB	0.05	1.5	-		No contract awards to date.	
<u>TURKEY</u>											
Loan 748-TU June 19, 1971	3.9	0.4	Schools Construction & Site Development	3.9	ICB	0.4	1.3	-		No contract awards to date.	
<u>KENYA I</u>											
Credit 93-KE* August 19, 1966	6.0	7.0**	Schools Construction & Site Development	6.0	ICB	0.06	0.4	-	Local	6.0	* Fully disbursed. ** Project composition revised.
<u>MALAGASY</u>											
Loan 510-MAG August 23, 1967	4.15	3.0	Schools Construction & Site Development	4.15	ICB	0.11	3.6	-	French Local	3.6 0.4	
<u>SUDAN</u>											
Credit 122-SU June 24, 1968	10.2	4.5	Schools Construction & Site Development	10.2	ICB	1.3	4.6	-		No contract awards to date.	
<u>ECUADOR</u>											
Credit 124-EC June 27, 1968	6.1	1.35	Schools Construction & Site Development	6.1	ICB	0.35	1.6	-	German Local	0.35 1.22	
<u>SIERRA LEONE</u>											
Credit 170-SL January 5, 1970	3.3	1.9	Schools Construction & Site Development	3.3	ICB	0.06	1.0	-		No contract awards to date.	

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

EDUCATION PROJECTS DEPARTMENT

<u>Project Data</u> (Country, Project Loan/Credit No., Date)	<u>Financing (US\$)</u>		<u>Principal Type of Work</u>		<u>Proposed Procurement</u>		<u>Proposed Contract Size</u>		<u>Reasons for Exemption from ICB</u>	<u>Results of ICB (US\$)</u> (Nationality and Total Contracts Won for Each Type of Work)		<u>Notes</u>
	<u>Total Cost</u>	<u>Bank Financing</u>	<u>Type</u>	<u>Amount</u>	<u>(Force Account, Local Compe- titive Bidding, or ICB)</u>	<u>Smallest</u>	<u>Largest</u>	<u>Local</u>		<u>Foreign</u>		
<u>TRINIDAD & TOBAGO</u>												
Loan 564-TR October 16, 1968	13.6	4.5	Schools Construction & Site Development	13.6	ICB	0.5	3.2	-		Not identifiable, Information requested.		
<u>GUATEMALA</u>												
Loan 576-GU December 16, 1968	8.6	3.9	Schools Construction & Site Development	8.6	ICB	0.05	0.8	-		No contract awards to date.		
<u>GUYANA</u>												
Loan 583-GUA Credit 139-GUA January 31, 1969	3.5 3.5	2.9 2.9	Schools Construction & Site Development	7.0	ICB	0.8	6.4	-		No contract awards to date.		
<u>CAMEROON</u>												
Credit 161-CM September 23, 1969	10.3	6.9	Schools Construction & Site Development	10.3	ICB	0.2	1.5	-		No contract awards to date.		
<u>IVORY COAST</u>												
Loan 667-IVC April 27, 1970	11.0	4.15	Schools Construction & Site Development	11.0	ICB	0.2	11.0	-		No contract awards to date.		
<u>KENYA II</u>												
Credit 185-KE May 20, 1970	5.7	2.94	Schools Construction & Site Development	5.7	ICB	0.01	1.5	-		Local	0.02	
<u>SPAIN</u>												
Loan 699-SF June 30, 1970	16.5	7.6	Schools Construction & Site Development	16.5	ICB	0.2	3.6	-		No contract awards to date.		
<u>GREECE</u>												
Loan 711-GR November 5, 1970	12.2	3.8	Schools Construction & Site Development	12.2	ICB	1.8	2.6	-		No contract awards to date.		
<u>DOMINICAN REPUBLIC</u>												
Credit 235-DO February 18, 1971	5.0	1.53	Schools Construction & Site Development	5.0	ICB	0.1	1.0	-		No contract awards to date.		
<u>BRAZIL</u>												
Loan 755-BR June 21, 1971	10.5	3.5	Schools Construction & Site Development	10.5	ICB	0.04	1.5	-		No contract awards to date.		
<u>TUNISIA II</u>												
Credit 94-TUN September 16, 1966	11.8	6.7	Schools Construction & Site Development	11.8	ICB	0.20	1.62	-		Local	10.34	
<u>UGANDA I</u>												
Credit 101-UG April 21, 1967	11.6	8.2	Schools Construction & Site Development	11.6	ICB	0.10	0.53	-		Kenyan Local	2.04 10.01	

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

EDUCATION PROJECTS DEPARTMENT

<u>Project Data</u> (Country, Project, Loan/Credit No., Date)	<u>Financing (US\$)</u>		<u>Principal Type of Work</u>		<u>Proposed Procurement</u>	<u>Proposed Contract Size</u>		<u>Reasons for Exemption from ICB</u>	<u>Results of ICB (US\$)</u> (Nationality and Total Contracts Won for Each Type of Work)		<u>Notes</u>
	<u>Total Cost</u>	<u>Bank Financing</u>	<u>Type</u>	<u>Amount</u>	(Force Account, Local Compe- titive Bidding, or ICB)	<u>Smallest</u>	<u>Largest</u>				
<u>NICARAGUA I</u>											
Loan 532-NI April 10, 1968	6.3	2.4	Schools Construction & Site Development	6.3	ICB	0.05	2.6	-	Local	1.3	
<u>COLOMBIA I</u>											
Loan 552-CO July 31, 1968	9.9	3.5	Schools Construction & Site Development	9.9	ICB	0.06	1.1	-	Local	7.74	
<u>ZAMBIA I</u>											
Loan 592-ZA April 11, 1969	27.7	8.8	Schools Construction & Site Development	27.7	ICB	0.03	1.01	-	Ugandan Yugoslav	0.04 0.04	
<u>KOREA I</u>											
Credit 151-KO June 4, 1969	16.8	4.6	Schools Construction & Site Development	16.8	ICB	0.09	0.96	-	Local	1.86*	* In the process of awarding.
<u>ZAMBIA II</u>											
Loan 645-ZA November 20, 1969	6.4	3.8	Schools Construction & Site Development	6.4	ICB	0.20	2.46	-	Local	4.38	
<u>CHILE III</u>											
Loan 668-CH May 7, 1970	10.5	3.4	Schools Construction & Site Development	10.5	ICB	0.04	2.5	-	No contracts awarded to date.		
<u>COLOMBIA II</u>											
Loan 679-CO June 4, 1970	8.0	2.4	Schools Construction & Site Development	8.0	ICB	0.06	1.0	-	Local	4.21	

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

PUBLIC UTILITIES DEPARTMENT

POWER I

Project Data (Country, Project Loan/Credit No., Date)	Financing (US\$)		Principal Type of Work		Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (US\$) (Nationality and Total Contracts Won for Each Type of Work)		Notes
	Total Cost	Bank Financing	Type	Amount		Smallest	Largest				
<u>MEXICO</u>											
Second Power Sector Program Loan 544-ME (\$90 mil.) June 28, 1968	52.0	13.0	Diversion works - N.A.		ICB	Single contract		-	Local	21.5	
			Dam spillway		ICB	Single contract		-	Local	2.3	
			Pressure tunnel		ICB	Single contract		-	Local	2.9	
			Small substations		ICB	N.A.		-	Local	12.9	
<u>ARGENTINA</u>											
El Chocon Power Project Loan 557-AR (\$82 mil.) December 19, 1968	67.8	36.6	Earth filled dam, powerhouse foundation, intake works, tunnel tailrace channel, spillway	67.8	ICB	Single contract		-	Italy-Argentina (bidding results available for appraisal report)	67.8	
<u>ARGENTINA</u>											
Second Segba Power Project Loan 525-AR (\$55 mil.) January 25, 1968	55.3	9.4	Foundation for boiler and turbo- generator, building, etc.	1.4	ICB	1.4		-	Germany	1.4	
			Small substations	12.1	ICB	N.A.		-	Local	12.1	
			Laying of 132 KV cables	)	ICB	0.39	0.89	-)		
			Laying of medium and low voltage cables	) 39.4	ICB	0.37	0.51	-	)	Local	24.1
			Small substations	)	ICB			-)		
			Small substations	2.4	ICB	N.A.		-	Local	2.4*	* Includes IBRD approved contracts and contracts let locally without IBRD approval.
<u>ARGENTINA</u>											
Third Segba Power Project Loan 644-AR (\$60 mil.) November 14, 1969	132.3	16.4	Overhead lines & transformation centers	)	ICB	0.03	0.48	-	Local	5.6*	* 45 contracts until now approved.
			Laying of 132 KV medium and low voltage cables	) 132.3	ICB	0.08	0.545	-	Local	9.7*	* 43 contracts until now approved.
			Substations	)	ICB	0.24	1.2	-	Local	4.2*	* 9 contracts until now approved.
<u>BOLIVIA</u>											
Second ENDE Power Project Credit 148-BO (\$7.4 mil.) April 28, 1969	5.7	3.7	Pressure tunnel surge tank, pressure shaft powerhouse	5.7	ICB	6.0		-	Brazilian	6.0	
<u>NICARAGUA</u>											
Second Power Sector Project Loan 543-NI (\$15.25 mil.) June 21, 1968	7.4	4.2	Dam, tunnel powerhouse	7.4	ICB	8.8		-	Italian (consortium)	8.8	
<u>HONDURAS</u>											
Rio Lindo Hydroelectric Project Loan 541-HO (\$7.5 mil.) Credit 116-HO (\$4.0 mil.) June 12, 1968	14.6	6.9	Power plants, civil works	10.5	ICB	10.35		-	German-Swiss consortium	10.35	
			Penstock (supply & installation)	4.1	ICB	2.25		-	Australian	2.25	

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

PUBLIC UTILITIES DEPARTMENT

POWER I

<u>Project Data</u> (Country, Project Loan/Credit No., Date)	<u>Financing (US\$)</u>		<u>Principal Type of Work</u>		<u>Proposed Procurement</u>	<u>Proposed Contract Size</u>		<u>Reasons for Exemption from ICB</u>	<u>Results of ICB (US\$)</u>	<u>Notes</u>
	<u>Total Cost</u>	<u>Bank Financing</u>	<u>Type</u>	<u>Amount</u>	(Force Account, Local Competitive Bidding, or ICB)	<u>Smallest</u>	<u>Largest</u>		(Nationality and Total Contracts Won for Each Type of Work)	
<u>COSTA RICA</u>										
Third Power Project Loan 631-CR (\$12 mil.) July 10, 1969	16.5	7.3	Road	1.6)					
			Dam	1.1	)	F.A.	-	-	Borrower is on notice that next project must be constructed by contract after ICB.	-
			Tunnel	5.8)					
			Small substations	<u>8.0</u>)					
			Total	16.5						
<u>PANAMA</u>										
Second Power Project Loan 661-PAN (\$20 mil.) March 16, 1970	25.0	15.0	Dam, powerhouse and roads	25.0		ICB	25.0		-	Yugoslav 25.2

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

PUBLIC UTILITIES DEPARTMENT - POWER II

Project Data (Country, Project, Loan/Credit No., Date)	Financing		Principle Type of Work		Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reason for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		Notes
	Total Cost	Bank/IDA Financing	Type	Amount		Smallest	Largest				
ETHIOPIA											
Fincha Hydroelectric Project 596-ET \$23.1 May 9, 1969	13.09	9.53	Road (Dam to Power- house) Reservoir & Dam Intake Tunnel and Penstock Powerhouse Structure	13.09	ICB	Single Contract		-	Italy	13.92	
TANZANIA											
Kidatu Hydroelectric Project 715-TA \$30.0 December 14, 1970	31.81	19.94	Dam & Diversion Works Powerstation, Tunnels & Switchyard Access Road & Camps	31.81	ICB	Single Contract		-	Joint Venture Sweden, UK & Netherlands	35.3	
KENYA											
Kamburu Hydroelectric Project 745-KE \$23.0 July 7, 1971	24.92	9.38	Access Roads Camp Diversion Spillway Dam Intake Structure Powerhouse Tailrace Tunnel & Channel Control House Substations	24.92	ICB	Single Contract		-	Joint Venture Germany & Switzerland	18.99	
BOTSWANA											
Shashe Infrastructure Project (Power, Water, Roads Railway & Township) 776-BT \$32.0 June 30, 1971	17.39	13.0	(1) Shashe Works (2) Roads (3) Railways (4) Township (a) Roads & Services (b) Houses (c) Government Building & Health Center	6.35 2.52 2.14 1.84 2.99 1.55	ICB	4(c) 1.55 (1) 6.35		-	Joint Venture (1) UK Zambia (4) (b) UK	4.77 3.1	
PAPUA & NEW GUINEA											
Upper Ramu Hydroelectric Development 737-PNG \$23.0 May 26, 1971	13.19	8.81	Buildings Access Shaft Tailrace Tunnel Pressure Shaft Machine Hall Diversion Weir Control Building	13.19	ICB	Single Contract		-	Bids are not yet opened		
TURKEY											
Kadincik II Hydroelectric Project 623-TU \$11.5 June 27, 1969	9.39	5.65	Dam Intake Tunnel Surge Tank Valve Chamber & Penstock Powerhouse Switchyard Camp, Roads & Quarters	9.39	ICB	Single Contract		-	Turkey	13.82 (Foreign exchange content \$5.80)	

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

PUBLIC UTILITIES DEPARTMENT - POWER II

<u>Project Data</u> (Country, Project, Loan/Credit No., Date)	<u>Financing</u>		<u>Principle Type of Work</u>		<u>Proposed Procurement</u>	<u>Proposed Contract Size</u>		<u>Reason for Exemption from ICB</u>	<u>Results of ICB</u> (Nationality and total contracts won for each type of work)	<u>Notes</u>	
	<u>Total Cost</u>	<u>Bank/IDA Financing</u>	<u>Type</u>	<u>Amount</u>	<u>(Force Account, Local Compe- titive Bidding, or ICB)</u>	<u>Smallest</u>	<u>Largest</u>				
<u>ZAMBIA</u>											
Kariba North Hydroelectric Project 701-7A \$50.5 July 29, 1969	34.1	20.6	Intake from existing dam and 600 MW hydroelectric Powerstation Civil Construction	34.1	ICB	Single Contract		-	UK	28.70	* Loan amount \$40.0 Supplemental loan of \$10.5 requested.
<u>MALAWI</u>											
Tedsani Power Project Cr. 178-MAI \$5.25 February 11, 1970	3.75	1.56	Construction of the first stage (16MW) of a Hydroelectric Powerstation with related substations	3.75	ICB	Single Contract		-	UK	4.52	

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

PUBLIC UTILITIES DEPARTMENT - POWER DIVISION III

<u>Project Data</u> (Country, Project, Loan/Credit No., Date)	<u>Financing</u>		<u>Principal Type of Work</u>		<u>Proposed Procurement</u>	<u>Proposed Contract Size</u>		<u>Reason for Exemption</u> from ICB	<u>Results of ICB</u>	<u>Notes</u>
	<u>Total</u> <u>Cost</u>	<u>Bank/IDA</u> <u>Financing</u>	<u>Type</u>	<u>Amount</u>	(Force Account, Local Competitive Bidding, or ICB)	<u>Smallest</u>	<u>Largest</u>		(Nationality and total contracts won for each type of work)	
<u>REPUBLIC OF CHINA</u>										
Tachien Power Project 574-CHA \$50.0 December 1968	50.435	21.5	Dam, tunnels, Powerhouse, switchyard & penstocks)	50.435	ICB	50.435		-	Japan/Italy	46.304
<u>IRELAND</u>										
Turlough Hill Pumped Storage Plant 591-IR \$14.5 March 1969	14.278	5.6	Lot I Construction of artificial upper reservoir) Lot II Construction of underground power house and asso- ciated works)	14.278	ICB	14.278		-	Lot I Germany	5.515
									Lot II Germany	9.037
<u>VENEZUELA</u>										
Guri Powerstation Expansion 629-VE \$31.0 June 1969	42.5	15.8	Construction of coffer dam, powerhouse, erection unit 1 & embedded parts) unit 5 to 10, penstock)	42.5	ICB	42.5		NOTE: Only one bid from local consortium was re- ceived & award made for major civil works. Award for Cofferdam, however, was made on cost plus fee basis as price bid was higher than cost estimates. Certain equipment were deleted, bid price being higher compared to estimates. Fresh bids have been issued for these items.	Local Consortium	29.37
<u>CEYLON</u>										
Maskeliya Oya Project Stage II 636-CE \$21.0 July 1969	11.83	5.2	Construction of diversion dam, pressure tunnel & powerhouse)	11.83	ICB	11.83		-	Local	7.399
<u>THAILAND</u>										
Sirikit Power Project 655-TH \$46.5 February 1970	11.5	8.0	Powerhouse & associ- ated civil works	11.5	ICB	11.5		-	Italy	10.482
<u>COLOMBIA</u>										
Chivor Hydroelectric Project 681-CO \$52.3 June 1970	79.8	32.4	Rockfill dam spillway, tunnels and powerhouse	79.8	ICB	79.8		-	Italy	59.094

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

PUBLIC UTILITIES DEPARTMENT

WATER SUPPLY I

Project Data (Country, Project, Loan/Credit No., Date)	Financing (US\$)		Principal Type of Work		Proposed Procurement	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (US\$)		Notes
	Total Cost	Bank Financing	Type	Amount	(Force Account, Local Compe- titive Bidding, or ICB)	Smallest	Largest		(Nationality and Total Contracts Won for Each Type of Work)		
<u>SINGAPORE</u>											
Power and Water Project Loan 503-SI (Part II Water Supply only) July 5, 1967	7.9	1.7	Dam, ancillary structures, roads & misc. site work	3.7	ICB	0.2	3.5	-	Local	3.7	
			Intake, pumping station and treat- ment plant structures	1.2	ICB	0.1	0.5	-	Local	1.2	
			Pipelines	3.0	ICB	0.01	0.33	-	Local	3.0	
<u>SINGAPORE</u>											
Sewerage Project Loan 547-SI July 3, 1968	17.3	3.0	Construction of sewers and some pumping stations	13.5	ICB	0.01	2.7	-	Local	10.8	
			Sewage treatment plant structures and site work	3.8	ICB	0.18	3.8	-	Local	3.8	
<u>YUGOSLAVIA</u>											
Ibar Multipurpose Water Project Loan 777-YU June 30, 1971	83.0	36.5	Dams	29.4	ICB	1.5	27.7	-	Local	1.5 *	* No foreign bids received. * It is possible that certain works may be subject to merged bidding to make large contracts, e.g. major conduits and irriga- tion and drainage nets. * It is possible that certain works may be subject to merged bidding to make large contracts, e.g. major conduits and irriga- tion and drainage nets.
			Hydroelectric plant	3.5	ICB	3.0	3.5	20.0 *	-	No contracts awarded to date.	
			Major conduits	30.2	ICB	3.0	20.0 *	-	No contracts awarded to date.		
			Pump stations	1.0	ICB	0.2	1.0	-	No contracts awarded to date.		
			Irrigation and drainage nets	14.7	ICB	0.2	11.2 [#]	-	No contracts awarded to date.		
			Roads, land levelling tile drainage and erosion control	4.2	ICB	0.2	1.7	-	No contracts awarded to date.		
<u>MALAYSIA</u>											
Kuala Lumpur Water Supply Project Loan 561-MA September 27, 1968	3.3	0.8	River works, water treatment plant and service reservoir construction	2.3	ICB	one contract	2.3	-	Local Local	2.4 [#]	* Contract for \$1.8 mil. was abandoned by contractor after \$0.6 mil. was spent and was retendered for completion of works; the total contract amount after retendering is shown.
			Pipelining works	1.0	ICB	0.24	0.3	-	Local Local	0.4 ^{**}	
									Local	0.24	
<u>JAMAICA</u>											
Kingston Water Supply Project Loan 598-JM May 14, 1969	3.5	0.12	Pipelining works	2.5	ICB	one contract	2.5	-	Venezuelan/UK	2.14	
			Construction of access road, intake & pumphouses & service reservoirs	1.0	ICB	0.04	0.3	-	Local	0.3	
									Local	0.1	
									Local	0.04	
								Local	0.08		

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

PUBLIC UTILITIES DEPARTMENT

WATER SUPPLY I

Project Data (Country, Project Loan/Credit No., Date)	Financing (US\$)		Principal Type of Work		Proposed Procurement		Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (US\$)		Notes
	Total Cost	Bank Financing	Type	Amount	(Force Account, Local Compe- titive Bidding, or ICB)	Smallest	Largest	(Nationality and Total Contracts Won for Each Type of Work)				
<u>KENYA</u>												
Nairobi Water Supply Project Loan 714-KE December 11, 1970	5.0	0.5	Pipelaying works	2.6	ICB	0.2	1.2	-	)	Yugoslav	1.75	* Estimated civil works component of a supply and erect contract awarded to this contractor.
			Construction of treatment plant, river intake, pump- ing station and service reservoirs	2.4	ICB	0.1	1.7	-	)	Yugoslav	0.23	
)		
							)	French	0.36			
							)	(about 65% of this contract for civil works item)*				
							)	Kenyan	0.15			
<u>GHANA</u>												
Accra/Tema Water Supply and Sewerage Project Credit 160-GH August 28, 1969	3.0	0.83	Laying of water mains	1.5	ICB	0.3	0.8	-	)	Israeli	0.8*	* The amount shown is for the civil works part of a larger supply and civil works contract awarded to the same contractor.
			Construction of sewage pumping station and laying of sewers	1.5	ICB	0.3	1.5	-	)	Israeli	2.2*	* The amount shown is for the civil works part of a larger supply and civil works contract awarded to the same contractor.

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

PUBLIC UTILITIES DEPARTMENT - WATER SUPPLY II

Project Data (Country, Project, Loan/Credit No., Date)	Financing		Principle Type of Work Type	Amount	Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reason for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		Notes		
	Total Cost	Bank/IDA Financing				Smallest	Largest						
<u>TUNISIA</u>													
First Water Supply Project 581-TUN January 1970	11.9	3.36	Pipe laying and related works	9.25	ICB	1.92	4.44	-	French	4.44			
			Distribution System	2.65	ICB	0.13	0.54	-	Tunisian French Tunisian	1.92 0.13 1.40			
<u>COLOMBIA</u>													
Bogota Water Supply Project 536-CO June 1968	9.84 *	1.8	Pipeline installa- tion	4.56	ICB		3.8	-	US (using Colombian sub-contractors)	4.5	* Amended to exclude supply contract.		
			Treatment & Pumping Plant Construction	2.28	ICB	1.0	0.5	-	Colombian	2.5			
			Storage Tank Con- struction	1.56	ICB		1.3	-	Colombian	0.9			
			Distribution Pipe Installation	1.20	ICB		0.2	-	Colombian	1.8			
			Access Road Con- struction	0.24	ICB		0.2	-	Colombian	1.7			
				9.84									
<u>TUNISIA</u>													
Second Water Supply Project Cr. 209-TUN July 1970	12.8	3.30	Installation of pipes and con- struction of related structures	12.8	ICB	0.1	2.5	-	Under Bidding				
<u>BRAZIL</u>													
Sao Paulo Water Supply Project Loan 757-BR June 1971	18.0	3.6	Installation of pipes in distribution system	14.5	ICB	0.03	0.4	-	Bid documents under preparation				
			Reservoirs	3.5	ICB	0.1	0.7	-	Bid documents under preparation				
<u>BRAZIL</u>													
Sao Paulo Pollution Control Project Loan 758-BR June 1971	61.8	8.6	Interceptors	35.3	ICB	0.6	13.0	-	Final Design not completed				
			Pumping stations	11.0	ICB	0.2	1.6	-					
			Tunnel and force main	15.5	ICB	6.5	15.0	-					
<u>COLOMBIA</u>													
Cali Water Supply Project Loan 682-CO June 1970	16.8	6.9	Treatment, pumping & storage	4.0	ICB	0.5	3.2	-	Under design				
			Supply and distribution	4.1	ICB	0.3	2.4	-	Under design				
			Interceptors & pumping	1.1	ICB	0.2	0.7	-	Under design				
			Sewers	2.8	ICB	0.2	1.2	-	Colombian	0.6			
			House Connections	(1.8 1.2)	ICB FA	NA NA							
			Canals	1.8	ICB	0.1	1.0	-	Under design				
				16.8									
<u>COLOMBIA</u>													
Second Bogota Water Supply Project Loan 741-CO May 1971	63.60	46.0	Tunnel construction	39.4	ICB		30.0	-	Bid analysis underway; among three lowest bidders are US/Colombian German and Yugoslavian contractors Bidding for most of other contracts scheduled only in 1973 and thereafter				
			Dam construction	9.0	ICB	0.5	7.0	-					
			Pipelines	2.0	ICB	0.2	1.5	-					
			Treatment plant	4.0	ICB	0.2	2.0	-					
			Access roads	1.2	ICB	0.2	0.5	-					
			Major distribution	5.6	ICB	0.2	1.5	-					
			Minor distribution	2.4	ICB	0.01	0.25	-					
										Only civil works contracts costing US\$50,000 or less would be exempted from ICB			

MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

FY1967	Project Data (Country, Project, Loan/Credit No., Date)		Financing (US\$)		Principle Type of Work Type	Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		Notes
	Total Cost	Bank/IDA Financing	Amount	Smallest			Largest					
	<u>HONDURAS</u>											
	Western Highway Paving Project Loan 495-HO May 26, 1967	11.5	7.8	Road paving	11.5	ICB	11.5		-	Venezuelan/Italian	9.1	
	<u>IRAQ</u>											
	Road Project Loan 457-IRQ July 22, 1966	44.7	16.8	Road construction	37.3	ICB	1.6	5.4	-	Iraqi Yugoslav	27.1 * 4.2 *	* Estimated final or revised cost.
				Road bridge construction	7.4	ICB	2.9	4.5	-	Yugoslav Finland	3.7 2.1	
	<u>KENYA</u>											
	Agricultural Roads Project Credit 104-KE May 11, 1967	6.9	4.7	Road construction	6.4	ICB	0.05 *	6.4 *	-	Kenyan British	0.05 6.4	* Actual size of contract awarded (estimated final or revised cost indicated where available).
				Preliminary grading and drainage works	0.5	FA/LCB (counted as FA only)	0.5		Urgent works to gain access to areas to be developed	-	-	
	<u>MALAGASY</u>											
	Road Project 90-MAG August 2, 1966	11.8	9.2	Road construction	11.8	ICB	11.8		-	French	9.9 *	* Estimated final or revised cost.
	<u>TRINIDAD & TOBAGO</u>											
	Highway Project Loan 497-TR June 2, 1967	16.6	6.3	Road construction	0.6	LCB	0.6		Portion of project financed and completed by Government prior to approval of Bank loan	-	-	
					1.6	ICB	1.6		-	Trinidad & Tobago	1.6 *	* Contract awarded by Government prior to Bank loan approval with Bank retroactively financing certain payments due after Jan, 1967.
					14.4	ICB	3.0	11.1	-	British	11.3 *	* Estimated final or revised cost.
	<u>YUGOSLAVIA</u>											
	Second Highway Project Loan 485-YU February 24, 1967	18.7	9.5	Road construction	18.7	ICB	0.8	11.9	-	Yugoslav	17.4 *	* Estimated final or revised cost.
	<u>ZAMBIA</u>											
	Highway Project Loan 469-ZA October 4, 1966	26.5	16.4	Road construction	26.5	ICB	1.0	10.7	-	British Yugoslav Italian German	1.0) 3.9) * 11.1) 7.6)	* Estimated final or revised cost.

MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

FY1968	Project Data (Country, Project, Loan/Credit No., Date)	Financing (US\$)		Principle Type of Work		Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		Notes
		Total Cost	Bank/IDA Financing	Type	Amount		Smallest	Largest				
ETHIOPIA												
	Fourth Highway Project Loan 523-ET & Cr. 111-ET January 15, 1968	37.3	26.0	Road construction	33.5	ICB	13.3	20.2	-	German Italy/Sweden	19.0 12.0	
				Road paving	3.8	ICB	0.9	2.9	-	Sweden	3.1	
IVORY COAST												
	Highway Project Loan 542-IVC June 21, 1968	4.8	3.4	Road construction	4.8	ICB	4.8		-	Israel/Ivory Coast	3.7 *	* Estimated final or revised cost.
KENYA												
	Second Highway Project Cr. 120-KE June 17, 1968	13.6	9.2	Road construction	13.0	ICB	1.3 *	5.0 *	-	British Israeli Kenyan	1.7 7.5 6.7	* Actual size of contract awarded (estimated final or revised cost indicated where available).
				Road bridge construction	0.6	ICB	0.05 *	.12 *	-	Kenyan	0.3	* Actual size of contract awarded (estimated final or revised cost indicated where available).
MALAWI												
	Highway Project Cr. 112-MAI February 5, 1968	12.5	10.4	Road construction	12.5	ICB	2.0	6.0	-	British French/Portuguese South African	5.4 * 5.8 1.0 *	* Original amount of contract to South African contractor was for US\$ 2.0 million. This contract was terminated after partial completion of work totalling about US\$1.0 million.
MEXICO												
	Third Road Project Loan 528-ME January 26, 1968	69.2	25.0	Road construction and improvement	65.4	ICB	2.2	4.3	-	Mexican	51.1	
				Road bridge construction	2.8	LCB	0.2	0.7	Extensive and highly specialized local road bridge construction industry	-	-	
				Road traffic signs and miscellaneous works	1.0	LCB		1.0	Minor and specialized works unsuitable for ICB	-	-	
THAILAND												
	Third Highway Project Loan 535-TH May 23, 1968	53.6	25.7	Road construction	53.6	IOB	5.0 **	8.9 *	-	Chinese Italian/Swedish Italian/Thai Danish/Thai	17.7 10.6 17.3 1.0	* Actual size of contract awarded (estimated final or revised cost indicated where available). ** Smallest of eight contracts awarded under the project except for one contract for bridge construction for about US\$ 1.0 million.
UGANDA												
	Roads Project Cr. 108-UG July 28, 1967	6.1	4.6	Road construction	6.1	ICB	0.5	5.7	-	Israeli Ugandan	5.0 0.4	

MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

FY1969	Project Data (Country, Project, Loan/Credit No., Date)	Financing (US\$)		Principle Type of Work		Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)		Proposed Contract Size Smallest Largest	Reason for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		Notes
		Total Cost	Bank/IDA Financing	Type	Amount	(Force Account, Local Competitive Bidding, or ICB)	(Force Account, Local Competitive Bidding, or ICB)					
	<u>ARGENTINA</u>											
	Second Road Project Loan 619-AR June 24, 1969	40.5	20.2	Road construction and paving	40.5	ICB	1.7	8.9	-	Argentinan	33.6	
	<u>BRAZIL</u>											
	Highway Construction Project Loan 567-BR October 23, 1968	59.9	23.9	Road construction and paving	59.9	ICB	0.13	5.9	-	Brazilian Brazilian/French	50.0 * 2.7 *	* Estimated final or revised cost.
	<u>C.A.R.</u>											
	Highway Project Cr. 146-CA April 3, 1969	5.2	3.9	Road reconstruction	5.2	ICB		5.2	-	French	3.6	
	<u>COLOMBIA</u>											
	Fifth Highway Project Loan 550-CO July 25, 1968	33.4	14.2	Road construction and paving	32.1	ICB	1.1	7.8	-	Colombian Colombian/U.S.A. Colombian	12.2 * 3.2 * 17.5	* Part of six contracts totalling US\$ 16.7 million awarded prior to Bank loan approval. Work relating to amounts totalling US\$ 10.5 million under these contracts included in project covered under the Bank loan.
				Road bridge construction	1.3	ICB		1.3		Colombian/German	1.3 *	* Same as above.
	<u>CONGO (K)</u>											
	Technical Asst. Highway Adm. Project Cr. 152-CK June 9, 1969	3.0	2.0	Road maintenance and rehabilitation	3.0	ICB	0.6	1.0	-	Italian	2.4	
	<u>GAHON</u>											
	Second Highway Project Loan 580-GA January 10, 1969	4.9	3.7	Road construction	4.9	ICB		4.9	-	Italian	4.9 *	* Estimated final or revised cost.
	<u>MALAGASY</u>											
	Second Highway Project Loan 570-MAG & Cr. 134-MAG November 12, 1968	10.9	7.6	Road construction	9.0	ICB	3.8	9.0	-	French Somalia/Italian	3.5 4.3	
				Road bridge construction	1.9	ICB		1.9	-	French	2.0	
	<u>PAKISTAN</u>											
	Second West Pakistan Highway Project Loan 578-PAK December 20, 1968	55.8	27.9	Road construction	48.8	ICB	10.0	25.1	-	Cancelled from project		
				Road bridge construction	7.0	ICB		7.0	-	Cancelled from project		

MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

Project Data (Country, Project, Loan/Credit No., Date)	Financing		Principle Type of Work Type	Amount	Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reason for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		Notes
	Total Cost	Bank/IDA Financing				Smallest	Largest				
<u>TANZANIA</u>											
Second Highway Project Loan 586-TA & Cr. 142-TA February 24, 1969	36.5	21.6	Road construction	36.5	ICB	5.5	19.5	-	Italian/British/ German Italian/British	14.2 16.7	
<u>THAILAND</u>											
Fourth Highway Project Loan 626-TH June 27, 1969	40.8	18.6	Road construction and improvement	40.8	ICB	4.6 *	7.1 *	-	Chinese Italian/Thai Korean Israeli	12.4 7.1 6.6 4.6	* Actual size of contract awarded (estimated final or revised cost indicated where available).
<u>VENEZUELA</u>											
Third Highway Project Loan 616-VE June 18, 1969	41.8	18.9	Road construction	40.8	ICB	2.4	7.5		Venezuelan Spanish/Venezuelan	10.4 * 2.1	* Includes three contracts totalling US\$ 3.3 million awarded prior to approval of Bank loan. Bank will participate only in pay- ments totalling US\$ 0.6 million to be made after June 1, 1969.
			Road slope stabili- zation and reaf- orestation	1.0	LCB		1.0	Minor works unsuitable for ICB	-	-	
<u>YUGOSLAVIA</u>											
Third Highway Project Loan 608-YU June 5, 1969	71.4	28.6	Road construction	71.4	ICB	3.4 *	24.7 *	-	Yugoslav	71.4 **	* Actual size of contract awarded (estimated final or revised cost indicated where available). ** Estimated final or revised cost.
<u>ZAMBIA</u>											
Second Highway Project Loan 563-ZA October 5, 1968	16.2	11.3	Road construction	16.2	ICB	8.0	8.2	-	Italian Italian/British	9.0 * 9.2 *	* Estimated final or revised cost.
<u>1970</u>											
<u>BRAZIL</u>											
Second Highway Construc- tion Project Loan 676-BR May 25, 1970	212.2	84.9	Road construction and paving	212.2	ICB	0.2	15.4	-	Brazilian	163.3 *	* Estimated final or revised cost.
<u>CAMEROON</u>											
Highway Project Loan 663-CM & Cr. 180-CM March 27, 1970	20.8	15.4	Road construction	20.8	ICB	3.5	10.8	-	French	17.1 *	* Award of contracts approved by Bank but contracts may not have been signed yet.
<u>CHILE</u>											
Second Highway Construc- tion Project Loan 688-CH June 10, 1970	21.0	9.5	Road construction	21.0	ICB	0.8	13.0	-	Chilean/Spanish	3.9	

MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

<u>Project Data</u> (Country, Project, Loan/Credit No., Date)	<u>Financing</u>		<u>Principle Type of Work</u>		<u>Proposed Procurement</u> (Force Account, Local Competitive Bidding, or ICB)	<u>Proposed Contract Size</u>		<u>Reason for Exemption</u> from ICB	<u>Results of ICB</u> (Nationality and total contracts won for each type of work)		<u>Notes</u>
	<u>Total Cost</u>	<u>Bank/IDA Financing</u>	<u>Type</u>	<u>Amount</u>		<u>Smallest</u>	<u>Largest</u>				
<u>COLOMBIA</u>											
Sixth Highway Project Loan 680-CO June 4, 1970	58.9	30.2	Road construction and improvement	2.6	ICB		2.6		Colombian	2.8	
			Road bridge construction	9.6	ICB		9.6		Italian/Colombian	8.0	
			Road paving	16.7	ICB	1.0	8.8		Colombian	18.6	
<u>COSTA RICA</u>											
Siquirres-Limon Highway Project Loan 664-CR April 2, 1970	16.5	11.5	Road construction	12.3	ICB	4.2	16.5		Italian/Venezuelan	19.9	
			Road bridge construction	4.2	ICB	4.2	16.5		Italian/Venezuelan	19.9	
<u>IRAN</u>											
Fifth Road Project Loan 697-IR June 29, 1970	64.4	25.6	Road construction	64.4	ICB	2.6	13.2	-			Bids invited for portion of project - no contract awards made to date
<u>KENYA</u>											
Third Highway Project Loan 639-KE October 10, 1969	33.5	21.6	Road construction	31.5	ICB	0.4	4.0	-	Yugoslav Kenyan Israeli German Italian Italian/British	2.6 5.3 7.3 3.0 4.4 8.3	
			Improvement of settlement roads	2.0	FA		2.0	Training of local youth construction units	-	-	
<u>MEXICO</u>											
Fourth Road Project Loan 695-ME June 26, 1970	52.3	16.9	Road construction and improvement	46.5	ICB	1.3	8.9	-	Mexican Mexican	4.2 11.3 *	*Award of contracts approved by Bank but contracts may not have been signed yet.
			Road bridge construction	5.1	LCB	0.12	0.8	Extensive and highly specialized local road bridge construction industry	-	-	
			Road traffic signs and miscellaneous works	0.7	LCB		0.7	Minor and specialized works unsuitable for ICB	-	-	
<u>MOROCCO</u>											
Highway Project Loan 612-MOR & Cr. 167-MOR November 13, 1969	16.8	10.9	Road construction	8.0	ICB	2.7	4.2	-	French/Moroccan	6.9	
			Road improvement	7.2	ICB	0.4	0.9	-	Moroccan	6.5	
			Road bridge construction	1.6	ICB	0.3	1.2	-			

MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

<u>Project Data</u> (Country, Project, Loan/Credit No., Date)	<u>Financing</u>		<u>Principle Type of Work</u> Type Amount		<u>Proposed Procurement</u> (Force Account, Local Competitive Bidding, or ICB)	<u>Proposed Contract Size</u>		<u>Reason for Exemption</u> from ICB	<u>Results of ICB</u> (Nationality and total contracts won for each type of work)		<u>Notes</u>
	<u>Total Cost</u>	<u>Bank/IDA Financing</u>				<u>Smallest</u>	<u>Largest</u>				
<u>NIGERIA</u>											
Highway Rehabilitation Project Loan 640-UNI November 6, 1969	14.2	8.5	Road construction and rehabilitation	14.2	ICB	1.5	14.2	-	Nigerian Israeli French	2.4 7.7 3.7	
<u>NIGERIA</u>											
Transport Rehabilitation Project Loan 694-UNI June 26, 1970	26.3 *	12.3	Road rehabilitation	26.3	ICB **	0.6	5.5	-	British/Italian Italian Nigerian	5.2 7.3 8.5	* Project content revised substantially. Amount indicated in Appraisal Report is only US\$18.6 million. ** Slightly modified ICB procedures were accepted for this project since Borrower had already completed advanced bidding action prior to knowledge of availability of Bank financing. Exceptions to Bank's normal procurement guidelines in this case were discussed during meetings of the Board of Executive Directors held on May 19 and 26, 1970 at which time the Bank loan was approved.
<u>PAPUA & NEW GUINEA</u>											
Highway Project Loan 693-PNG & Cr. 204-PNG June 24, 1970	10.7	7.0	Road construction	10.7	ICB	2.4	10.7	-	Australian	14.8	
<u>RWANDA</u>											
Highway Project Cr. 196-RW June 17, 1970	9.5	8.1	Road construction	9.5	ICB		9.5	-	Italian/Belgian	4.5	
<u>UGANDA</u>											
Second Road Project Cr. 164-UG September 29, 1969	13.6	9.5	Road construction and reconstruction	13.6	ICB	0.4	3.0	-	Italian/British Italian British Ugandan	6.5 3.0 2.0 2.0	
<u>YUGOSLAVIA</u>											
Fourth Highway Project Loan 678-YU May 28, 1970	93.3	38.3	Road construction	93.3	ICB	1.6	38.7	-	Yugoslav	92.9 *	* Estimated final or revised cost.

MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

Project Data (Country, Project, Loan/Credit No., Date)	Financing		Principle Type of Work Type	Amount	Proposed Procurement (Force Account, Local Compe- titive Bidding, or ICB)	Proposed Contract Size		Reason for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		Notes
	Total Cost	Bank/IDA Financing				Smallest	Largest				
<u>ARGENTINA</u>											
Third Highway Project Loan 734-AR May 5, 1971	138.0	62.1	Highway construction and improvement	138.0	ICB	0.3	21.3	-	Argentinian	20.7 *	* Award of contracts approved by Bank but contracts may not have been signed yet.
<u>FIJI</u>											
First Highway Project Loan 771-FIJ June 30, 1971	13.8	9.6	Road construction	13.8	ICB	5.8	13.8	-	Bids invited - no contract awards made to date		
<u>FINLAND</u>											
Third Highway Project Loan 723-FI February 17, 1971	33.8	13.0	Road construction	23.1	ICB	7.0	23.1	-	Finland/Sweden Finland	7.4 15.3	
			Road paving	10.7	ICB	0.13	10.7	-	Finland	9.3	
<u>ICELAND</u>											
Highway Project Loan 707-IC October 12, 1970	6.4	3.2	Road construction and improvement	6.4	ICB	0.4	2.9	-	Icelandic Icelandic/Danish	3.1 2.5	
<u>INDONESIA</u>											
Second Highway Project Cr. 260-IND June 24, 1971	38.7	25.1	Road construction	38.7	ICB	12.1	13.3	-	Bids not yet invited		
<u>IVORY COAST</u>											
Second Highway Project Loan 761-IVC June 22, 1971	32.0	17.6	Road construction	32.0	ICB	4.9	14.5	-	Bids invited - no contract awards made to date		
<u>JORDAN</u>											
Highway Project Cr. 262-JO June 28, 1971	7.1	4.6	Road construction	7.1	ICB		7.1	-	British/Jordanian	6.2	
<u>KOREA</u>											
Highway Project Loan 769-KO June 29, 1971	86.9	41.0	Road construction	86.9	ICB	4.6	13.9	-	Bids invited for a portion of project - no contract awards made to date		
<u>NIGER</u>											
Second Highway Construction Project Cr. 231-NIR January 29, 1971	6.6	4.6	Road construction and improvement	6.6	ICB	1.2	5.5	-	Bids invited - no contract awards made to date		
<u>PHILIPPINES</u>											
Highway Project Loan 731-PH April 14, 1971	7.1	4.0	Road construction	7.1	ICB	3.5	7.1	-	Bids invited - no contract awards made to date		

MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

<u>Project Data</u> (Country, Project, Loan/Credit No., Date)	<u>Financing</u>		<u>Principle Type of Work</u> Type	<u>Amount</u>	<u>Proposed Procurement</u> (Force Account, Local Competitive Bidding, or ICB)	<u>Proposed Contract Size</u>		<u>Reason for Exemption</u> from ICB	<u>Results of ICB</u> (Nationality and total contracts won for each type of work)	<u>Notes</u>
	<u>Total Cost</u>	<u>Bank/IDA Financing</u>				<u>Smallest</u>	<u>Largest</u>			
<u>SIERRA LEONE</u>										
First Highway Project Loan 710-SL & Cr. 218-SL October 29, 1970	7.0	4.6	Road construction	7.0	ICB		7.0		Bids received - contract not yet awarded	
<u>TUNISIA</u>										
Highway Project Loan 746-TUN June 9, 1971	38.8	21.5	Road construction	23.3	ICB	3.9	7.4	-	Bids invited for certain portion of works - no contract award made to date	
			Bridge and culvert construction	5.5	ICB	1.2	2.6	-	Same as above	
			Road rehabilitation and resurfacing	10.0	ICB	0.4	1.0	-	Bids not yet invited	
<u>YUGOSLAVIA</u>										
Fifth Highway Project Loan 751-YU June 18, 1971	80.2	30.5	Preparatory road construction works	3.0	LCB		3.0	Numerous small works unsuitable for ICB	-	
			Road construction	77.2	ICB	1.2	32.9	-	Bids not yet invited	

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

<u>Loan/Credit No., Date</u>	<u>Financing (US\$)</u>		<u>Principal Type of Work</u>		<u>Proposed Procurement</u> (Force Account, Local Competitive Bidding, or ICB)	<u>Proposed Contract Size</u>		<u>Reasons for Exemption</u> from ICB	<u>Results of ICB (US\$)</u> (Nationality and Total Contracts Won for Each Type of Work)	<u>Notes</u>
	<u>Total Cost</u>	<u>Bank Financing</u>	<u>Type</u>	<u>Amount</u>		<u>Smallest</u>	<u>Largest</u>			
<u>MALAGASY REPUBLIC</u>										
Tamatave Port Project Credit 200-MAG June 19, 1970	12.8	7.0	Breakwater exten. Pier extension & improvement Transit sheds & warehouses Improvement to storage areas, roads & railway tracks <u>0.5</u> Total	6.3))) 3.2) 1.5))))) 0.5) 11.5	ICB	11.5		-	Bids invited; contract not yet awarded.	
			Deepwater tanker mooring, sea line, etc.	1.3	ICB	1.3		-	Bids not yet invited.	
<u>HONDURAS</u>										
Second Port Project Loan 767-HO June 25, 1971	7.5	4.3	Construction of deep-water wharves & related works	7.5	ICB	3.1	4.4	-	Loan not yet effective.	
<u>MALAYSIA</u>										
Sabah Ports Project Loan 774-MA June 30, 1971	19.6	14.3	Construction of deep-water and other berths, & transit sheds	19.6	ICB	8.2	19.6	-	Bids not yet invited.	
<u>THAILAND</u>										
Third Bangkok Port Project Loan 702-TH August 6, 1970	19.4	11.3	Construction of berths, transit sheds & ancillary works	19.4	ICB	19.4		-	Bids invited; no contracts awarded to date.	

MAJOR CIVIL WORKS ELEMENTS IN BANK/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

Project Data (Country, Project, Loan/Credit No., Date)	Financing (US\$)		Principal Type of Work		Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reasons for Exemption from ICB	Results of ICB (US\$) (Nationality and Total Contracts Won for Each Type of Work)		Notes
	Total Cost	Bank Financing	Type	Amount		Smallest	Largest				
<u>SINGAPORE</u>											
Singapore Port Project Loan 462-SI August 11, 1966	17.0	9.1	Container berth & dredging	17.0	ICB	17.0		-	USA/British Australian	9.5 1.1	
<u>SENEGAL</u>											
Dakar Port Project Loan 493-SE May 1, 1967	6.6	3.8	Quay wall reconstruction Dredging	3.9 2.7	ICB ICB	1.4	2.5	- -	French/Senegalese French/Senegalese	3.3 2.9	
<u>TUNISIA</u>											
Second Port Project Loan 573-TUN November 29, 1968	5.1	3.7	Dredging Breakwater restoration Grain silo constr. Grain berth constr.	2.5 0.5 1.6 0.5	ICB ICB ICB ICB		2.5	- - - -	French/Italian French Tunisian/French French/Tunisian	2.5 0.5 2.1 0.5	
<u>CYPRUS</u>											
Cyprus Port Project Loan 628-CY June 30, 1969	14.7	8.6	Breakwater constr. Quay construction Dredging Transit sheds Passenger terminal Road & sorting areas Misc. works Total	6.1 3.1 2.1 1.0 1.0 0.8 0.6 14.7	) ) ) ) ) ) ) ) ) ICB		14.7	-	Yugoslav	14.4	
<u>GUINEA</u>											
Bokeauxite Project Loan 557-GUI September 18, 1968 Loan 766-GUI June 25, 1971	76.5	65.6	Dredging Loading wharf constr. Water supply facilities Township constr. Drainage works Railway works Total	3.7 11.3 6.1 15.2 1.8 38.4 76.5	) ) ) ) ) ) ) ) ) ICB		Global contract awarded	-	Italian/Belgian/British	64.3	
<u>TANZANIA & KENYA</u>											
East African Harbours Corporation Project Loan 638-EA August 25, 1969	48.1	28.6 *	Berth construction Grain silo constr. & handling equipment Oil tanker mooring buoy and pipeline Improvements to berths & stacking areas Dhow wharf constr. Cold storage building Office buildings and employee housing	33.9 3.8 3.6 3.2 0.3 1.0 2.3	ICB ICB ICB FA LCB LCB LCB	0.6 0.4 0.26 3.2 0.3 1.0 2.3	12.6 1.8 3.6 3.2 0.3 1.0 2.3	- - - - - - -	Dutch British German Contracts not yet awarded British Swiss One contract not yet awarded The existing facilities are in use and this precludes work by con- tract due to inevitable delays (except for small section). Small value work unsuit- able for ICB (and may be omitted from project). Now omitted from project. Bank financing not provided.	12.0 12.2 1.6 0.26 1.30 - - - - -	* Includes any Bank loan funds which may be provided from Loan 428-EA.

MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

<u>Project Data</u> (Country, Project, Loan/Credit No., Date)	<u>Financing</u>		<u>Principle Type of Work</u>		<u>Proposed Procurement</u> (Force Account, Local Compe- titive Bidding, or ICB)	<u>Proposed Contract Size</u>		<u>Reason for Exemption</u> from ICB	<u>Results of ICB</u> (Nationality and total contracts won for each type of work)	<u>Notes</u>
	<u>Total</u> <u>Cost</u>	<u>Bank/IDA</u> <u>Financing</u>	<u>Type</u>	<u>Amount</u>		<u>Smallest</u>	<u>Largest</u>			
<u>PAKISTAN</u>										
Second Sui Northern Gas Project Loan 597-PAK May 13, 1969	3.7	1.1	Gas pipeline con- struction	2.9	ICB	3.7		-	Lebanese	3.6
			Gas compressor station construction	0.8	ICB	3.7		-	Lebanese	3.6
<u>PAKISTAN</u>										
Third Sui Northern Gas Project Loan 696-PAK June 29, 1970	12.8	5.1	Gas pipeline con- struction	9.8	ICB	5.1	6.2	-	Lebanese	10.6
			Gas compressor station construction	1.5	ICB	5.1	6.2	-	Lebanese	10.6
			Urban gas distribution system construction	1.5	LCB		1.5	Small and specialized contracts unsuitable for ICB	-	-
<u>TUNISIA</u>										
El-Borma-Gabes Pipe- line Project Loan 724-TUN February 25, 1971	5.7	3.9	Gas pipeline con- struction	5.2	ICB	5.2		-	French	5.3
			Employee housing and office building con- struction	0.5	LCB	0.5		Small and specialized contracts unsuitable for ICB	-	-

MAJOR CIVIL WORKS ELEMENTS IN IBRD/IDA PROJECTS

(In US\$ million)

TRANSPORTATION PROJECTS DEPARTMENT

Civil works related to laying or relaying of railway tracks have been omitted.

Project Data (Country, Project, Loan/Credit No., Date)	Financing		Principle Type of Work Type	Proposed Procurement (Force Account, Local Competitive Bidding, or ICB)	Proposed Contract Size		Reason for Exemption from ICB	Results of ICB (Nationality and total contracts won for each type of work)		Notes	
	Total Cost	Bank/IDA Financing			Smallest	Largest					
<u>FY 1967</u>											
<u>YUGOSLAVIA</u>											
Belgrade-Bar Railway Project Loan 531-YU March 22, 1968	113.5	33.0	Earthworks and structures (including bridges and tunnels)	105.6	ICB	0.1 *	7.3 *	-	Yugoelav	94.4	* Actual size of contract awarded.
				1.2	LCB		1.2	Minor works unsuitable for ICB	-	-	
				30.0	LCB		30.0	Works started prior to approval of Bank loan	-	-	
			Total	136.8							
			Building construction	6.7	LCB		6.7	Works unsuitable for ICB	-	-	
<u>FY 1970</u>											
<u>KENYA, TANZANIA, UGANDA</u> (East African Community) Third East African Railway Project Loan 674-EA May 25, 1970	11.4 *	2.8	Station buildings and staff housing construction	2.4	ICB	0.9	1.5	-	Bids not yet invited		* Civil works elements as per revised Development Programme not fully reflected in Appraisal Report.
				4.7	LCB	0.05	0.5	Small value contracts unsuitable for ICB	-	-	
			Total	7.1							
			Railway station construction	1.0	LCB		1.0	Bank financing for this work not provided	-	-	
			Bridge construction	3.3	LCB		3.3	Bank financing for this work not provided	-	-	

CIVIL WORKS PROCUREMENT UNDER BANK GROUP
FINANCED PROJECTS IN INDIA AND IN
OTHER SELECTED COUNTRIES

- (a) Existing Projects - India
- (b) Projects in Pipeline - India
- (c) Selected Projects - Other Countries

CIVIL WORKS PROCUREMENTExisting Projects - India1. U.P. Tubewells (Uttar Pradesh) - Credit 8-IN

Estimated Total Cost	\$12.0 million
Estimated Civil Works Cost	\$ 8.7 million
Cost of Civil Works Submitted to International Competitive Bidding	\$ Nil

(i) The Project consisted of drilling and equipping of 800 tubewells with an average depth of 300 to 400 ft over a period of three years, a continuation of a long-term program of tubewell development in Uttar Pradesh where over 6,000 tubewells were already in operation. The project wells were, therefore, new work when considered separately, but part of an on-going program in the broader sense. It was expected that each would have an average capacity of 1.5 cu ft per second (cfs) and that the 800 wells would serve 320,000 ac. While the majority of the pumps would be electric-powered from the existing grid system a small number would be powered by diesel motors. The cost of connection to the grid system was included in the total estimated cost of \$12 million.

(ii) The appraisal mission estimated the foreign currency requirement at \$1.3 million, including purchase of drilling rigs, trailer trucks, workshop equipment, and pipes and casings by international tender. During review of the project, the Association decided that the amount of foreign currency was so small and the needs of the project were such that it was desirable to increase the Association's share to approximately 50% of the total cost, i.e. to \$6 million, of which \$4.7 million was allocated to civil works. In retrospect it seems likely that the wide dispersion of the wells and their small size made them unsuitable for international bidding.

2. Shetrunji (Gujarat) - Credit 13-IN

Estimated Total Cost	\$8.8 million
Estimated Civil Works Cost	\$6.7 million
Cost of Civil Works Submitted to International Competitive Bidding	\$ Nil

(i) The project consisted of a dam already constructed across the Shetrunji River and two main canals on opposite banks of the river, commanding a gross area of 190,000 ac. Although 110,000 ac were irrigable,

only approximately 86,000 ac were to be irrigated under the project. The Right Bank Canal was to have an initial capacity of 695 cfs: at the time of appraisal, excavation was proceeding on the first 26 miles of this canal and designs and estimates for the remaining 16 miles were under preparation. Investigations for the distributaries for the first 30 miles had been completed. Detailed designs and estimates for the first 25 miles of the 58-mile long, 425-cfs left canal were nearing completion and investigations for the balance of the canal were in progress.

(ii) The appraisal mission estimated the cost of completing the works at \$9 million, of which approximately \$350,000 would be required for the purchase of equipment, tractors and spare parts under international bidding. However, the Association decided that the Credit should cover approximately 50% of the cost of the work involved. The Credit was therefore \$4.5 million, of which \$4.2 million was allocated to civil works. In retrospect it seems very doubtful that international contractors would have been interested in bidding for the relatively short section of the Right Bank Canal and the distributaries which had not been committed at the time of appraisal but might possibly have tendered for the Left Bank Canal. However, in view of the limited capacity of the canal and the question as to the amount of lining involved, interest in this work by international bidders is debatable.

3. Salandi (Orissa) - Credit 14-IN

Estimated Total Cost	\$16.2 million*
Estimated Civil Works Cost	\$ 9.5 million**
Cost of Civil Works Submitted to International Competitive Bidding	\$ Nil

After revision of project and exchange rate, approximately:

* \$27 million;

** \$20 million.

(i) The project, as appraised in 1961, consisted of a 170-ft high composite masonry and earthfill storage dam on the Salandi River, storing 303,100 ac-ft, and commanding 225,000 ac. The general design of the project had been undertaken by the Irrigation Department of the State of Orissa. The layout for the 45-mile long main canal and the distribution system for an area of 113,000 ac had been completed at the time of appraisal and preparatory work was being done on the balance of the project. At that time it was estimated that the construction of the dam would take two years and that irrigation of a part of the area would begin in 1963, with all the work completed by June 1965. The Credit of \$8 million, equal to approximately 50% of the cost of completing the project, included the foreign currency requirement of \$1.3 million for purchase of equipment, tools and spare parts by international bidding. The remainder of the Credit, \$6.7 million, was to be disbursed as a percentage of local currency expenditures. The appraisal report stated,

". . . The works would mainly be executed by the Irrigation Department forces, although the department would contract for labor with local contractors. These contracts are all on a quantity basis and are let after bids have been published in the local press. . ."

(ii) Because of poor progress and major changes in design the project was reappraised in 1966. The principal changes in the project consisted of the addition of a diversion dam to eliminate the previously proposed main supply canal, reduction in the area to be irrigated from 225,000 ac to 113,000 ac, and a reduction in the area serviced by each irrigation outlet. Because of delays completion of the project was rescheduled to early 1968. At the time of reappraisal, approximately 25% of the work on the dam had been completed, but the construction equipment ordered two years earlier had only recently arrived at the site of the work. The Credit was later reduced from \$8 million to \$7.504 million and it was agreed that this total would include \$1.437 million worth of imported equipment and spare parts needed to complete the dam and diversion barrage.

(iii) In retrospect, the only structure that might have been considered suitable for international bidding was the main storage dam, estimated to cost some \$3 million. Because of its design, which included a 580-ft long masonry section containing the spillway and three sluices, it is doubtful if the dam would have been interesting to international contractors. By the time of the reappraisal the dam was well under construction and agreement was reached that (a) prompt action would be taken to complete the detailed design and (b) that any additional contracts would be advertised locally and awarded promptly.

4. Punjab Drainage (Punjab) - Credit 15-IN

Estimated Total Cost	\$20.0 million
Estimated Civil Works Cost	\$16.6 million
Cost of Civil Works Submitted to International Competitive Bidding	\$ Nil

(i) The project consisted of a part of an ongoing program to provide flood protection and surface drainage in part of the Punjab, south and east of the Beas River and of the Sutlej River. It involved the construction of about 17 miles of embankments and other flood protection works along the banks of the Rivers Beas, Sutlej, Jumna and Ghaggar together with excavation of about 2,000 miles of new drainage ways; enlargement of 300 miles of existing drainage ways; canalization and training of about 50 miles of natural channels; and construction of associated arterial and district roads and related structures. The estimated cost of these works was approximately \$20 million, of which \$3.4 million was to be used to

purchase imported equipment and spare parts under international bidding. The remainder of the \$10 million Credit (approximately 50% of the project cost) was to assist in meeting local currency costs of project works.

(ii) The appraisal report stated,

" . . . The works have been designed by the Punjab Irrigation Department which has many years of experience with this type of work. Construction will be mainly undertaken by local contractors assisted, where necessary, by the use of heavy machinery operated by the Irrigation Department. These arrangements would be satisfactory. . ."

Because of the wide dispersion of the works over more than five million acres and the relatively minor size of many of the individual structures, it seems unlikely in retrospect that any of the project works would be considered suitable for ICB under strict application of the Association's present policies.

5. Sone (Bihar) - Credit 21-IN

Estimated Total Cost	\$30.0 million
Estimated Civil Works Cost	\$25.5 million
Cost of Civil Works Submitted to International Competitive Bidding	\$16.5 million *

* Advertised internationally but only Indian firms purchased the tender documents.

(i) The project consisted of works to improve the water supply to 733,000 ac of crops already under irrigation and irrigation of about 300,000 ac of additional land. The main works included replacement of the diversion barrage and remodeling and extension of the existing canal system. The new barrage was to be a semi-floating concrete weir, about 4,633 ft long between abutments, with the spillway designed for a maximum flood discharge of 1,450,000 cfs. Link canals, with sufficient capacity to supply the existing and enlarged canal systems on both sides of the Sone River, were included in the project. The Right Bank Link Canal was to be 6.25 miles long and the Left Bank Canal, 7 miles. The existing system of canals and distributaries was to be enlarged, extended and remodeled to provide irrigation service to existing and new areas. This involved approximately 427 miles of canals on the right bank and 1,235 miles on the left bank.

(ii) Prior to appraisal of the project, a contract for construction of the barrage had been awarded and invitations to tender had been issued for the manufacture, supply and installation of gates, hoists and operating

bridges. Remodeling of the existing irrigation system was about 90% completed and excavation of the link canals had been started. Work on the extension and remodeling of the existing irrigation system and the construction of the link canals was being done by departmental forces. The cost of completing the work under the project, less the estimated expenditure for purchase of materials in countries other than member countries, was expected to be about \$30 million. The Credit of \$15 million included \$1.5 million for additional materials and equipment not available in India. The remainder of the Credit was to be used to assist in meeting the local currency expenditures of existing and future contracts, as well as departmental force account work.

(iii) The appraisal report noted that,

" . . . Department forces are doing all construction work except the barrage which is being done by contract. The Department has experienced and capable men and is qualified to complete the project construction . . ."

Because of the advanced stage of the work, with all major civil works either awarded or under way by departmental forces, it is obvious, in retrospect, that none of the remaining works would have been suitable for international bidding.

6. Purna (Maharashtra) - Credit 23-IN

Estimated Cost	\$26.0 million
Estimated Civil Works Cost	\$19.0 million
Cost of Civil Works Submitted to International Competitive Bidding	\$ Nil

(i) The project consisted of a 168-ft high composite masonry and earth storage dam, with a 22,500 KW power plant; a similar 125-ft high re-regulation and irrigation dam 40 miles downstream; a 50-mile long concrete and masonry-lined main canal; and a distribution system consisting of about 85 miles of major and 165 miles of minor distributaries to serve the 152,000 acres. At the time of appraisal the dams were approximately 80% complete and work had been started on the main canal, with about 20% of the first 10 miles completed. Completion of the project was scheduled to take a little over four years, by mid-1966.

(ii) The cost of the project was estimated at about \$26 million, including a foreign exchange requirement of \$2.6 million to purchase

" . . . imported materials and equipment including hoists, cranes, gates, turbines, generators, shafts, switch gear and related components, spare parts, tools and workshop . . ."

The remainder of the \$13 million Credit (approximately 50% of the costs to complete) was to assist in financing the cost of civil works. Later the foreign currency requirement was reduced to \$1.9 million while the total Credit was unchanged. The appraisal report noted,

"... most of the earthwork portions of the dams is being done by departmental forces, the masonry sections are being constructed by Indian contractors under unit price contracts under local competitive bidding, and the canals and distributaries will be built under departmental supervision, using small, unit price contracts for short sections of the work . . ."

The Supplementary Letter regarding Procurement and Contracts reflected these procedures for civil works but provided for ICB for the imported materials and equipment. In view of the status of project civil works at the time of appraisal, these procedures do not appear to be in conflict with Bank Group policies regarding ICB.

7. Kadana (Gujarat) - Credit 176-IN

Estimated Total Cost	\$66.7 million
Estimated Civil Works Cost	\$45.2 million
Cost of Civil Works Submitted to International Competitive Bidding	\$ Nil

(i) The project consisted of construction of a 190-ft high composite earthfill and masonry dam on the Mahi River, and construction of a distribution system to expand the area irrigated on the Mahi River right bank from 58,000 ac to 105,000 ac together with improvements to the drainage system for approximately 40,000 ac and leveling of about 17,000 ac. The project also included construction of a complete new irrigation system for approximately 8,000 ac on the left bank and construction or improvement of approximately 1,100 km of secondary roads and about 2,100 km of farm-to-market roads in the project area.

(ii) At the time of appraisal construction of the right bank area was approximately 60% complete but the left bank area had not been started. About 15% of the dam was completed and PWD estimated that it could be completed in 1972. The appraisal mission estimated that both the right and left bank area distribution systems would be completed in 1974, watercourses, field channels and land leveling in 1975, and construction of permanent outlets in 1976.

(iii) The cost of remaining works was estimated at almost \$67 million. Estimated foreign exchange requirement for purchase of certain specified heavy equipment was \$2.5 million. The total Credit of \$35 million, equivalent to 52% of the expenditures needed to complete the project, included direct foreign exchange costs and 50 of the estimated local expenditures.

All contracts awarded prior to appraisal had been awarded on the basis of local competitive bidding. The remaining works consisted mainly of lining the Nadiad Branch canal and small contracts for excavation of minor channels dispersed over a large area and the road program, which were considered unlikely to attract international contractors. It was agreed, therefore, that works would be awarded on the basis of local bidding. The Credit Agreement (Schedule 3, Paragraph 7) stated,

" . . . Civil works for the Project shall be carried out through contracts awarded on the basis of local competitive bidding or through force account . . ."

In retrospect it appears that the Nadiad Canal work, consisting of re-shaping the canal prism, lining 12 km with clay brick and tile and reconstructing structures might possibly have been of interest to international bidders. The requirement that this work be carried out when the canal was not in operation, about seven months each year, requiring three construction seasons, however, makes this interest highly debatable.

8. Road Project (Credit 3-IN)

Estimated Total Cost	\$80.5 million
Estimated Civil Works Cost	\$77.0 million
Cost of Civil Works Submitted to International Competitive Bidding	\$24.0 million

(i) The project was a program, intended to be carried out from April 1, 1961 to September 30, 1964, of construction and reconstruction of some National Highways and a Bombay Expressway, on which the GOI would make expenditures of US\$120 million equivalent. The part of the project to be financed with the proceeds of the Credit consisted of (a) construction and reconstruction of approximately 660 miles of National Highways and the Bombay Eastern Expressway, amounting to about US\$77 million equivalent, and (b) a technical and economic study of the traffic problems of the City of Bombay.

(ii) The mission which appraised the project reported that a certain number of roads and bridge work selected by IDA had been given to local contractors under unit price contracts, acceptable to IDA, based on local competitive bidding. For the works which still had to be awarded, higher standards regarding the thickness of the pavement and the quality of work execution had been agreed upon. The increase in mechanization as compared to previous practices appeared to justify the award of larger contracts than in the past. However, the major portion of the total road works were, therefore, executed on the basis of competition among small- and medium-size local contractors - the remainder of the works by modified force account because the individual road works were still judged to be

too small to attract foreign bidders. In retrospect it appears that there was a possibility of grouping contracts into packages of a size which might have generated foreign interest.

(iii) Although the loan documents stipulate only competitive bidding, international competition was applied for all 19 major bridges included in the project, with an estimated total cost of US\$24 million equivalent. Foreign firms participated in the bidding but all the lowest evaluated bids were submitted by large Indian contractors of which 2 had formed joint ventures with foreign firms.

(iv) The project works were completed by 1968, about 3 years later than originally scheduled, and the cost increased by about 40%.

Road Project (Credit 3-12)

Estimated Total Cost	US\$ 24 million
Estimated (Div) Works Cost	US\$ 17.5 million
Cost of Div Work Subsidy to International Competitive Bidding	US\$ 6.5 million

(i) The project was a program, intended to be carried out from April 1961 to September 30, 1964, of construction and restoration of National Highways and Bombay Expressway, on which the GOI would bear the maintenance of US\$120 million equivalent. The part of the project to be financed with the proceeds of the Credit consisted of (a) construction and restoration of approximately 600 miles of National Highways and the Bombay Eastern Expressway, amounting to about US\$77 million equivalent, and (b) a technical and economic study of the traffic problems of the City of Bombay.

(ii) The mission which appraised the project reported that a certain number of roads and bridge work selected by IDA had been given to local contractors under unit price contracts, acceptable to IDA, based on local competitive bidding. For the works which still had to be awarded, higher standards regarding the thickness of the pavement and the quality of earth execution had been agreed upon. The increase in expenditure as compared to previous practices appeared to justify the award of larger contracts than in the past. However, the major portion of the local road works were, therefore, executed on the basis of competition among small and medium-size local contractors - the remainder of the work by modified force account because the individual road works were still judged to be

CIVIL WORKS PROCUREMENTProjects in Pipeline - India1. Cauvery Delta (Tamil Nadu) - Appraised

Estimated Total Cost	\$40.2 million
Estimated Civil Works Cost	\$19.9 million
Cost of Civil Works considered suitable for International Competitive Bidding at time of appraisal	\$ Nil

(i) The project, appraised in November 1969, differed from all the other recent projects in that work had not started. The civil works were varied in character, including rehabilitation of very old weirs and other structures; conversion of road bridges into regulators; rehabilitation of old canals, drains and rivers; and land leveling. The mission concluded, and the green cover appraisal report (PA-44, April 7, 1970) stated, that international competitive bidding would not be appropriate since the civil works

"...are spread over the whole of the project area and individually are small in size..."

(ii) Negotiations of the Credit, scheduled in May 1970, were cancelled at short notice because an interstate water dispute had arisen between Tamil Nadu and Mysore.

(iii) The Cauvery Delta project is not presently included in the lending program. GOI has requested on various occasions that the Association should take up the civil works portion again (the procurement of pumps and other features have since been covered by a credit project). However, the Association has not been informed of any change in the dispute which led to the cancellation of negotiations and recent press reports indicate that the situation has deteriorated. A reappraisal or updating mission would be necessary before the project could be reactivated. It is unlikely that a new mission would conclude that any of the civil works were suitable for international bidding.

2. Tawa Irrigation Project (Madhya Pradesh) - Appraised

Estimated Total Cost	\$71.0 million
Estimated Civil Works Cost (including land leveling)	\$49.7 million
Cost of Civil Works considered suitable for International Competitive Bidding at time of appraisal	\$12.7 million

(i) The project was appraised in November 1970 and reappraised in February 1971. It is a typical ongoing project: contracts have been awarded for the masonry part of the dam (15% complete); the earthen embankments are being constructed by force account (55% complete); and some contracts have been awarded for canals (30% complete).

(ii) Procurement of civil works for the project has been discussed exhaustively by the Association. A second yellow cover, dated October 8, 1971, recommended that about half of the civil works were unsuitable for international bidding because of their nature (land leveling) or because they were small and scattered and must be coordinated with cropping seasons and farmers' acceptance of land development schemes. The second yellow cover proposes the following arrangements for procurement:

Ongoing contracts	\$10.6 million
International bidding	\$12.7 million
Local bidding and force account	<u>\$26.4 million</u>
	<u>\$49.7 million</u>

However, the report stresses that these arrangements relate to the position immediately after reappraisal (March 1971) and that contracts awarded subsequently are likely to have reduced the amount suitable for international bidding, perhaps by as much as \$5-6 million.

3. Pamba (Kerala) - Ready for Appraisal

Estimated Total Cost*	\$10.0 million
Estimated Civil Works Cost	\$ 7.0 million
Cost of Civil Works considered suitable for International Competitive Bidding at time of identification (March 1971)	\$ 2.0 million

* As in the case of all the irrigation projects that follow, the figures quoted are from State Government estimates which are several years old. Experience shows that IDA appraisal missions recommend 30-40% increases in estimates.

(i) The project is small, but includes an unusual number of tunnels and aqueducts. The fairly small diversion barrage is nearly complete and the gates are being installed. A very large aqueduct over the Pamba River has been completed and the concrete-lined main canal is complete except for five tunnels (totaling 5 km in length) and aqueducts (totaling 2 km). Contracts have been awarded locally for all the Right Bank Canal, which will be completed in 1974.

(ii) The tunnels and remaining aqueducts and the Left Bank Canal were considered suitable for ICB at the time of identification. The cost of existing tunnel contracts, awarded after local bidding, was very low indeed

by international standards and the quality of the work was excellent: there is little doubt that local contractors would win awards under ICB.

(iii) The project was originally scheduled for FY72 but has been "slipped" to FY73. Appraisal was scheduled for October 1971 but preparation was delayed and the Association did not press for early completion since appraisal must await resolution of the civil works procurement controversy. There is little doubt that contracts will be awarded prior to appraisal for the Left Bank Canal and, perhaps, some tunnels. The value of works suitable for ICB will probably be reduced to \$1 million by the time of appraisal.

4. Jayakwadi (Maharashtra) - Ready for Appraisal

Estimated Total Cost	\$100.0 million
Estimated Civil Works Cost	\$ 50.6 million
Cost of Civil Works possibly suitable for International Competitive Bidding	\$ 23.5 million

(i) The project is a typical ongoing project, comprising a dam (\$15.7 million); an irrigation and drainage system (\$34.9 million); on-farm development and infrastructure (\$28.5 million) and land acquisition and resettlement (\$20.9 million).

(ii) The original contract for the masonry portion of the dam was terminated for poor performance and new contracts were recently awarded. The earthen embankments are being constructed by force account.

(iii) From a review of the report, it appears probable that the main canal and associated structures would be suitable for international bidding. The \$23.5 million shown above is the full cost of this canal, including the total cost of equipment needed. It is not known how much of this work has been started: a remark in the feasibility study suggests that contracts for almost half of the canal have been awarded. Depending on the date of appraisal, the actual amount suitable for ICB could be less than \$10 million.

5. Kuttiadi (Kerala) - Under Preparation

Estimated Total Cost	\$21.0 million
Estimated Civil Works Cost	\$ 9.9 million
Cost of Civil Works possibly suitable for International Competitive Bidding	\$ 3.0 million

(i) Kuttiadi is a small ongoing project: the engineering cost is estimated by PWD at \$16.9 million, of which \$9.9 million are still to be carried out. However, the identification mission considered that the overall cost, including on-farm development and infrastructure, might be as high as \$21 million.

(ii) As of January 31, 1971, the dam was 65% complete and the earth dams, 80%. Contracts had been let for about 30% of the canals and aqueducts, which total about 74 km in length. Costs breakdowns were available by years only. The cost of the main canals and associated structures potentially suitable for ICB would be unlikely to exceed \$3 million, depending on the date of appraisal.

6. Khrishna (Maharashtra) - Under Preparation

Estimated Total Cost	\$60.0 million
Estimated Civil Works Cost	\$48.0 million
Cost of Civil Works possibly suitable for International Competitive Bidding	\$42.0 million

(i) The project, which would irrigate 90,000 ha, is complex and includes three dams (\$26 million) and a considerable length of main canals (\$16 million). No significant amount of work had been undertaken by January 31, 1971.

(ii) It is probable that the State will proceed with construction and that major contracts will be awarded before appraisal. In all probability these contracts will cover the dams and parts of the canals, reducing the value of civil works suitable for ICB to perhaps \$10 million.

7. Bhima (Maharashtra) - Under Preparation

Estimated Total Cost	\$50.0 million
Estimated Civil Works Cost	\$36.0 million
Cost of Civil Works possibly suitable for International Competitive Bidding	\$ 8.0 million

(i) The Bhima project is large and complex: the part included in the proposed project consists of a large storage dam (\$11 million) and a distribution system serving 110,000 ha (\$25 million).

(ii) Contracts were awarded for the dam in 1969 but only a small amount of work has been completed. The Left Bank Canal (124 km long with a capacity of 110 m³/sec) is potentially suitable for ICB. The Right Bank Canal is smaller (40 m³/sec) but longer (176 km) and would also be suitable for international bidding.

(iii) It is certain that contracts for the main canals will be let before appraisal, possibly eliminating the application of ICB.

8. Proposed Second Highway Project - Preappraised

Estimated Total Cost	\$60.0 million
Estimated Civil Works Cost	\$60.0 million
Cost of Civil Works considered suitable for International Competitive Bidding	\$50.0 million

- (i) The project which was identified in March 1969 consists of the improvement of about 900 km of road in four states (Uttar Pradesh, Bihar, Maharashtra and Tamil Nadu) and is part of India's program to upgrade all National (primary) roads to a fully designed two-lane standard.
- (ii) The works consist of road widening, strengthening, new construction of realignments and bypasses and the widening or reconstruction of attendant bridges - all on a designed vertical and horizontal alignment.
- (iii) Preparation of draft plans and contract documents is complete but these may require some modification during appraisal. Similarly, the economic evaluation of the project needs to be reviewed in the light of GOI's latest construction cost estimates. Slight modifications to the scope of the project may be expected.
- (iv) Four separate roads, varying in length from 175 to 230 km each, appear suitable for ICB. The amount of work in each would be large enough to benefit from effective planning and control techniques resulting in a uniform standard of work. The value of improvement works to each road (three at US\$14 million and one at US\$8 million) would allow contractors to mobilize adequately. It is expected that some operations would be subcontracted. Minor works (value US\$10 million) consisting essentially of separate bypasses and bridges in isolated locations would not be suitable for ICB.
- (v) The project was originally scheduled for appraisal in November 1969 but was "slipped" about one year to allow preparation work in draft form to be completed. Although modifications in project scope (mentioned above) may be required, the project has been ready for appraisal since early 1971.

CIVIL WORKS PROCUREMENTSelected Projects - Other Countries1. Third Irrigation Rehabilitation - Indonesia - Credit 220-IND

Estimated Total Cost	\$29.1 million
Estimated Civil Works Cost	\$17.6 million
Cost of Civil Works Submitted to International Competitive Bidding	\$ Nil

(i) The project consisted of the rehabilitation and reconstruction of the irrigation facilities in three widely separated sub-projects and the provision of maintenance equipment and training of provincial staff for operation and maintenance of the rehabilitated facilities. The Credit of \$14.5 million was to finance 100% of the foreign currency expenditures for equipment, vehicles and spare parts and technical assistance, and approximately 66% of the local currency cost of civil works.

(ii) The civil works involved the repair or replacement of weirs and other structures in primary and secondary canals and drains and the desilting and repair of these waterways; the construction or rehabilitation of tertiary canals and their structures and repair and construction of service roads and inspection paths. Construction of new facilities in extensions of the existing systems were also included. The appraisal report stated,

"...The projects works, labor intensive by nature, are spread over three non-contiguous areas, individually small in size by international standards. For these reasons, they do not lend themselves to international competitive bidding. It has been agreed that all civil works contracts for the present project would be medium (Rp 5-25 million) or large (over Rp 25 million) and that they would be awarded on a competitive basis after bidding by pre-qualified contractors. Negotiated contracts will continue to be used for work of specialized nature, in particular the manufacture of small steel sluice gates. These gates are of various types and sizes and do not lend themselves to international competitive bidding. About 15% of civil works would be carried out by PROSIDA force account..."

In view of the nature, size and dispersion of the works there is no reason to question the judgment that ICB was not applicable.

2. Pyongtaek-Kumgang - Korea - Loan 600-KO

Estimated Total Cost	\$89.9 million
Estimated Civil Works Cost	\$60.9 million
Cost of Civil Works Submitted to International Competitive Bidding	\$49.3 million

(i) The project consisted of the development under irrigation of two separate areas which involved pumping water from river estuaries to irrigate adjacent lands; the procurement of farm equipment and facilities for repair and maintenance thereof; overseas training of Korean personnel and the preparation by consultants of a seed multiplication project. The Credit of \$45 million, approximately 50% of the total cost, was to cover the estimated foreign currency requirements of the project.

(ii) The civil works involved the completion of a 2.0 km sea dike across one estuary; the construction of a new 3,200 m sea dike across another; the construction of pumping plants, irrigation and drainage canals, roads, offices and related structures as well as the provision of the remaining irrigation facilities; on-farm development and land leveling for some 37,000 ha of land. The appraisal report stated,

"...All tendering for procurement and civil works contracts would be on the basis of international competitive bidding, except for small contracts for terracing, benching and land levelling, totalling about US\$10 million equivalent, which would not attract serious international competition and would be tendered locally. Even under international bidding, however, it is likely that many of the successful bidders would be Korean, since Korea has both a rapidly developing industrial sector and a large, highly competitive contracting industry..."

The same approach is reflected in the Supplementary Letter on procurement. In view of the minor value, nature and wide disbursement of the works accepted from ICB, there is no reason to question this judgment.

3. Seyhan, Stage II - Turkey - Loan 587/TU/Credit 143-TU

Estimated Total Cost	\$63.0 million
Estimated Civil Works Cost	\$41.6 million
Cost of Civil Works Submitted to International Competitive Bidding	\$29.2 million

(i) The project consisted of the construction of an irrigation and drainage system on about 39,250 ha and on-farm development on about 48,250 ha, including about 9,000 ha provided with irrigation and drainage facilities in Stage I. Also included were the construction of a concrete pipe factory, the procurement of equipment, materials and supplies, the building

of operation and maintenance facilities, implementation of an extension program and overseas training of local personnel. The Bank Group financing of \$24 million was to cover the estimated foreign currency requirements of the project.

(ii) The civil works involved the construction of canals and drains in five areas of the Tarsus and Yuregir Plains and the installation of concrete pipe and canalette distribution systems designed to serve approximately 39,000 ha; the construction of new headworks in the right abutment and the modification of the existing left abutment headworks of the Seyhan Reservoir; on-farm development consisting of land leveling over the entire area, the installation of tile drains and excavation of surface drains and the construction of feeder roads. The appraisal report provided that,

"...Irrigation and drainage works would be constructed by contracts let after international competitive bidding. The only exception would be the headworks at the dam site which would be constructed by DSI's force account and the operation and maintenance facilities which would be built by local contractors..."

(iii) The operation and maintenance facilities include the on-farm land leveling, drainage and feeder roads. Because of the nature, small size and wide dispersion of these facilities they were not considered suitable for ICB. While the total of \$11 million for these reserved works is considerable, it is made up of a number of unrelated activities whose timing would depend on the progress of other operations. In view of this situation, there appears to be no reason to question the judgment regarding the suitability of ICB for this work.

4. Upper Pampanga - Philippines - Loan 637-PH

Estimated Total Cost	\$67.5 million
Estimated Civil Works Cost	\$52.3 million
Cost of Civil Works Submitted to International Competitive Bidding	\$46.8 million

(i) The project consisted of facilities to provide a dependable water supply for year-round cultivation of project lands, which required construction of a 110-m high earth and rockfill storage dam; rehabilitation of existing irrigation systems serving about 46,000 ha; modification of two existing diversion dams; and construction of a new system to serve 31,000 ha and about 1,000 km of feeder roads. Also included were provision of equipment for operation and maintenance of the irrigation works; a feasibility study of power development at the dam and improvement of the National Irrigation Administration's organization and management. The Loan of \$34 million was to cover the foreign currency requirements of the project.

(ii) The civil works involved were to be done by contract after international competitive bidding, except as provided in Schedule 4 of the Loan Agreement,

"...1. Civil works for: (a) the rehabilitation of the existing irrigation systems referred to in paragraph 2 of the Description of the Project; (b) farm ditches included in the Project; (c) the upgrading of the irrigation system serving about 12,000 ha included in paragraph 1 of the Description of the Project; and (d) the construction of access roads included in the Project, may be carried out by NIA on force account..."

This provision supported the appraisal report which stated,

"...Construction of Pantabangan Dam, the new irrigation systems, project facilities, feeder and operation and maintenance roads as well as modifications of the existing diversion dams would be done by contracts to be awarded on the basis of international competitive bidding. A single contract is expected to be awarded for construction of the dam and about three for the irrigation works. Rehabilitation work on the existing irrigation system, and the construction of farm ditches throughout the area and an access road to the dam which do not lend themselves to international competitive bidding, would be carried out as force account work by the NIA..."

(iii) It is of interest that the NIA has recently requested authority to let some of the work for rehabilitation of existing irrigation facilities under local competitive bidding rather than perform it by force account in order to recover some lost time. This does not indicate, however, that this work would have been suitable for ICB since it is of relatively low value and must be carried out without interference to ongoing irrigation operations. Work of this size and nature and under these conditions would be very unlikely to attract international bidders.

5. Muda - Malaysia - Loan 434-MA

Estimated Total Cost	\$83.1 million
Estimated Cost of Civil Works	\$60.1 million
Cost of Civil Works Submitted to International Competitive Bidding	\$35.6 million

(i) The project consisted of facilities required to irrigate, for double cropping, an area of about 261,500 ac. Included were two storage dams with a tunnel connecting their reservoirs and a saddle dam on one reservoir; regulatory structures and improvements on rivers; a headworks for and a main canal system; enlargement and improvement of existing, and construction of new, distribution facilities; improvement of drainage, including the installation of tidal gates and provision of four operation and maintenance divisional headquarters including O & M equipment. Also included was provision for assistance to farmers, including operation of an experimental and demonstration farm. The Loan of \$45 million was to cover the estimated foreign currency requirements of the project and a portion for the local expenditures.

(ii) The Supplementary Letter regarding procurement provided that all contracts for civil works over \$100,000 would be let after international bidding and, for contracts below that value, local competitive bidding would be used. Under this procedure the dams, tunnel and main canals were awarded under ICB and reservoir clearing, river improvement and distribution systems were awarded to local contractors after competitive bidding for relatively small areas. In retrospect, it appears that it might have been possible to offer some of the distribution system works, which were reasonably contiguous and which totaled \$19.4 million, in packages which could have been bid in total by international contractors or, in segments, by local firms.

Circumstances Under Which the Industry Operates

While the Indian construction industry possesses business acumen, engineering know-how and organizational talent, considerable scope remains for further development. There is ample evidence that the major impediment to growth of the industry is the circumstances under which it operates.

The Role of the Public Works Departments

One of the critical factors in development of the construction industry is the position of the Public Works Departments (PWDs) as its most important client. Contractors are confronted with a formidable establishment when dealing with the Government. The size of this establishment, consisting of the Central Water and Power Commission (CWPC) and the Central Roads Wing (CRW) at the central level, and PWDs in the States, is large even in relationship to the workload carried. In Maharashtra, for example, one of the most developed States, the PWD staff from Chief Engineer to overseer numbers 11,738. The proposed expenditure for 1970/71 was US\$143.5 million equivalent, which averages about \$12,000 of expenditure for each employee. In other developing countries such as Thailand, the load per employee is closer to \$50,000. The consensus of State PWD officials interviewed by the mission was that the cost of the maintaining this establishment amounts to about 10 percent of total expenditures for civil works.

Though the Government now contracts out most civil works, construction by departmental forces is still significant, amounting to about 20 percent of total Government civil works expenditure. These force account operations require a large equipment pool as well as operators, mechanics and other service personnel. Government agencies also own the majority of the equipment required for civil works construction. We came across various estimates, but it appears certain that at least 80 percent of all construction equipment in India is owned by Government agencies.

The large and powerful PWDs have developed a very natural desire to preserve their position. We gained the impression that few departmental engineers view the development of a more independent construction industry as a priority objective. There is little dialogue on technical problems between contractors and departmental engineers, and almost no exchange of personnel between the two groups. We were often told that there are about 50,000 qualified engineers without jobs, and that preserving the dominant role of the PWDs meant security of tenure for many engineers who would otherwise have to join the unemployed.

Conditions of Contract

The strong position of the PWDs is reflected in the conditions of contract which generally favor the PWDs and contain many features which are objectionable to the contracting industry.

Each PWD is free to develop contract conditions deemed suitable in that State. State standards are reviewed and revised every five to ten years. The central administration has the right to comment on contract documents for large projects financed by the Central Government, but this right is rarely exercised. There are no standard conditions that apply throughout India, but the features that are most objectionable to contractors, discussed below, are prevalent in all States. While the problem is recognized, past efforts to standardize, and at the same time improve contract conditions have failed. In 1968, for example, the Planning Commission published a "Standard Contract Form for Construction Works" which had been developed by Government officials working with the Builders' Association of India. Although the States have received copies of the document, it is not being used as a guideline.

Since contractors object to many features of the conditions offered by the State, they often add conditions to their bids, even though tender documents in several states specify that conditional bids should be disqualified. Contractors are thus sometimes able to achieve modifications of State standards for particular contracts, but in most cases, only after protracted negotiations. While this alleviates some of the worst problems, contractors would prefer acceptable conditions being offered as a matter of course to remove the threat of disqualification, and to permit price competition with all bidders facing the same conditions. Some States have attempted to use a "two envelope system" whereby bidders state additional conditions in a separate envelope which is opened first. Officials then try to quantify the effect of these conditions on the bid price proper. This is difficult, since many conditions are not amenable to quantification, and a degree of arbitrariness remains.

It is interesting to note that contract conditions prepared by statutory authorities and public enterprises are usually less biased than those prepared by PWDs. The business of port authorities, electricity boards, petrochemical concerns and the like is to operate infrastructure, not to construct it. They have every interest in completing construction of civil works as quickly and as efficiently as possible. Consequently, they offer contract conditions that are attractive to large construction enterprises, and refrain from direction of the contractor's operations.

Powers of the Departmental Engineer

One of the features of contract conditions which is most objectionable to the industry is the power of the departmental engineer. The engineering representative of the owner (the Engineer) is of course responsible for assuring that the contractor shall execute and complete the works

in strict accordance with the contract and the specifications. As a general rule, the Engineer should refrain from directing the work in detail, since he otherwise assumes responsibility for the result of his directions. In India, however, the engineer's task is complicated by the fact that the procedure of employing a number of small labor contractors is, in fact, a form of modified force account, with the contractor looking to the engineer for direction and guidance as to what is to be done and by what methods. The contract conditions therefore are generally based on the assumption that the engineer must maintain absolute control of all operations. Even the tender documents for major structures include such conditions. ^{1/} The result is a vicious circle: as the contractor is deemed incapable of directing all his operations, he is denied complete control and consequently has little incentive to develop the capabilities required to operate independently. The strong position of the engineer is extremely distasteful to the relatively few larger contractors who have developed substantial competence by concentrating on difficult specialized work and who count qualified engineers among their own staff. They acknowledge that most departmental engineers are knowledgeable and reasonable. However, they resent having to rely on the personal disposition of particular engineers, and would prefer contract conditions that establish more independence for the contractor in managing his operations.

Arbitration

Among the powers of the Engineer which appear most questionable from the standpoint of equity is his position in arbitration of differences between the contractor and the employer. As a representative of the owner, the engineer is a party to the dispute and should not be, nor select, the arbitrator. In several States, contract conditions reviewed by the mission either did not contain arbitration clauses, or provided for arbitration by a single individual who was usually an officer of the agency involved in the dispute. Under these conditions, the contractor must feel that his

^{1/} In the documents for the Kadana Dam, Clause 29 reads:

"All works to be executed under the contract shall be executed under the direction and subject to the approval in all respects of the superintending Engineer of the Circle for the time being, who shall be entitled to direct at what point or points and in what manner they are to be commenced, and from time to time carried on."

Clause 30 provides that:

"the decision of the Superintending Engineer shall be final, conclusive and binding on all parties to the contract".

claim is not being presented to an objective judge, and that bias in favor of the Government is almost certain. Another procedure requires each party to the dispute to select one arbitrator; these two select a third one who acts as umpire. Contractors try to avoid arbitration at almost any cost; it is time-consuming and rarely leads to a final settlement, since PWDs sometimes go to court if the arbitration result is not favorable to them. It would be preferable to diminish the significance of arbitration clauses by improving other conditions which are now the cause for arbitration cases.

Specifications

Closely associated with the powers of the engineer is the question of the clarity, completeness and currency of the technical specifications. The mission found that in the case of the specially prepared documents for larger works, the specifications generally appear to be acceptable. In other contract documents, however, the description of work to be performed was incomplete, and too much was left to the engineer's judgment and his day-to-day arrangements for completing the work. In spite of the large staff available to PWDs, their inability to complete specifications and drawings for entire projects was mentioned to us as one reason for the practice of splitting larger works into a multitude of small segments to be handled by separate contracts as tender documents become ready.

Specifications are sometimes unrealistic in that they require materials that are not available locally. The bidder then faces a choice between submitting a bid based on the true cost of meeting the specified quality of the materials, or submitting a lower bid based on the assumption that during execution the engineer will allow substitution of cheaper materials and methods.

The possibility of specifications not being strictly enforced encourages the performance of sub-standard work. If the specifications, for instance, require that close tolerances must be observed in the grading of stone aggregates for the base course of a road, provision of hand-crushed aggregates can result in a reduction of the life of the road and higher maintenance expenditure. These may be the economically correct solutions, but the trade-off between initial investment costs and reconstruction and maintenance costs should have been calculated before specifying materials and methods. The point is, however, that once specifications have been established, there should be no possibility of any contractor distorting the bidding process by offering a lower tender in the hope of getting away with cheaper materials and methods in execution.

Quality control is of course a very sensitive subject, and we should like to emphasize that in the very short time available, we could not collect evidence on site. Government engineers emphatically asserted that specifications were being enforced with adequate quality control. However, many contractors frankly admitted to doing what they call "stooping", i.e., execution of works with cheaper materials than specified.

Size and Continuity of Work Program

Continuity of a civil works program is generally accepted as one of the conditions necessary for development of a country's construction industry. In examining this area, a distinction must be made between the continuity of the State's financial program and the opportunity for contractors to count on a reasonably steady flow of work from this program. Information furnished the mission indicated that for irrigation works, and to a lesser extent for highway construction, the total financial program was fairly constant. From the contractors' viewpoint, however, the continuity was much less evident.

In addition to the normal risks of gaining work through competitive bidding, the size and type of contracts offered has a major bearing on the lack of continuity. Most important is the general policy of the PWDs of fragmenting works into small segments wherever possible so that the work involved in any one contract is of a special type, such as excavation or masonry, which can be accomplished in one or at most two working seasons. This policy results in the development of contractors who are specialized in one type of operation and prepared to work on a year-to-year basis. From the contractors' viewpoint, if his special type of work is not being required during a particular period, there is no continuity of opportunity to bid, and for the successful bidder there is only assurance of one year's work. Since a number of the PWDs reserve machine-intensive activities for force account construction, the contractors are not encouraged to invest in equipment, and their options for development and for work within the program are further reduced.

Financial Problems

Lack of working capital and difficulty of access to credit sources are the factors most frequently mentioned by contractors as limiting their ability to increase their capacity and to bid on larger contracts.

The small- and medium-size contractors are generally the hardest hit, but in spite of some differences in credit availability between States, mobilizing financial resources is a problem for all contractors in the country. Contractors are not recognized as an "industry", let alone a "priority industry", which has ramifications for credit eligibility and tax status. Since major banks were nationalized, they have been implementing a selective credit policy which has practically dried up the flow of funds to contractors, who must fall back on their own means, or on small banks and money-lenders with interest rates ranging from 12-25 percent.

Registration and contract conditions place additional strains on the contractors. In order to register, the contractor has to procure a certificate of solvency based on the proof of fixed assets, excluding capital vested in the construction business. In Madhya Pradesh, for example, the certificate is issued primarily on the basis of land ownership;

the contractor must therefore immobilize scarce working capital needed for his operations to buy land before he can be registered. Contract conditions then require him to pay "earnest money" (bid bonds of 1-2 1/2 percent of contract value) and "security deposits" (performance bonds usually 2 1/2 percent in cash), and the PWDs usually retain an additional 7 1/2 percent of progress payments to supplement the 2 1/2 percent cash performance bond. While progress payments are almost invariably made on time, the final settlement, with the return of the retention money, can take years. Bank guarantees can in some States replace the cash "earnest money" and "security deposit", but this choice is no longer attractive since banks now require collateral in the full amount of the guarantee as if it were a straight loan. Where a Bank guarantee is obligatory, the contractor often has to deposit the full amount with the Bank.

Advances by the owner rarely relieve the contractor's financial strain. Mobilization payment is never granted as a matter of course, but some PWDs now consent to paying 10 percent of the contract value if the contractor so conditioned his bid. Neither are advances granted as a matter of course for equipment and materials on site. This type of advance is sometimes granted upon request in amounts varying between 20 and 90 percent of the value of material and the current value of equipment; in the case of advances on equipment, transfer of title and insurance by the contractor is required.

Escalation clauses and similar provisions protecting the contractor from unforeseeable contingencies are usually included in the documents for the largest contracts, or are incorporated by conditions of tender by the bidders. Small contracts, also, are rarely subject to cost changes, since they are usually limited to one year or less, and do not involve the furnishing of materials or the use of a significant amount of equipment. It is the medium-size contractor who faces unforeseeable cost problems. His agreement may cover two or more working seasons and, in addition to labor, may involve the purchase of fuel, explosives and some materials for incorporation in the works. A change in the price of these items may significantly increase his costs. In the absence of an escalation clause, he must gamble on stable prices or add a contingency factor to his bid and take the chance of not getting the contract.

In our discussions with Government agencies, we found that there was considerable variation in the treatment of this problem. Representatives of the CWPC said that a few States had a standard provision to cover cost increases due to direct Government action, such as changes in the minimum wage laws. Most states, however, have no escalation clause at all, and clauses covering market price increases are never offered. If a bidder includes a request for an escalation clause as a condition of his bid, it may be considered, but the additional cost to the Government is estimated and added to the bid price for evaluation.

Like businessmen everywhere, contractors in India complain about tax burdens, but we found it difficult to substantiate these complaints in detail. In fact, we heard from several smaller contractors that they pay no taxes at all, and there are many allowances and exemptions which reduce the burden for others. Nevertheless, there was evidence of adverse impact of taxes on the viability and growth potential of construction enterprises in other cases. These include the medium-size contractor who keeps no books and whose taxable income is determined by a fixed percentage of contract values which may well exceed his true profit. Most objectionable to larger contractors organized as closely held companies is the fact that they pay a flat rate of 65 percent, whereas if construction were recognized as an industry, they would pay only 55 percent. Strangely, equipment depreciation allowances for tax purposes are generous, which, in conjunction with the high company tax rates, encourages the use of equipment instead of labor.

Recognizing the strain on contractors' resources during project execution, and the need for credit, PWD officials and contractors have advanced the idea of a special credit institution for the construction industry, or of providing access for contractors to existing development banks. It has also been mentioned that the PWDs could directly administer a fund from which generous advances could be paid. The first step should certainly be a reform of contract conditions to establish as regular features escalation clauses as well as mobilization payments and advances against equipment and materials.

Indian contractors tend to make extensive use of labor because it is cheap. However, there are operations for which equipment is either indispensable or cheaper to use in spite of the low labor rates. Examples of these operations are the haulage and lifting in excavation when distances become too great, compaction of embankments, and the laying of high-quality road pavements.

Contractors in India have difficulty obtaining equipment for two reasons: first, they lack funds, and second, domestic production of many items is insufficient to meet demand. The fact that Government agencies absorb most of the production and then rent available equipment to contractors at rates below cost does not completely solve the problem. When Government-owned equipment breaks down, the contractor is still bound to the execution schedule and to the contract price. In addition, he has to take the equipment with PWD operators who demand wage supplements from the contractor. Finally, the equipment rental system reinforces the contractor's dependence on PWDs and curtails his incentive to develop his competence in planning and programming construction operations. It is practically impossible for an individual contractor to obtain foreign equipment. The intention to use it must be stated in bids, and any competitor able to do without it has a great advantage. If contractors insist, they must obtain the sponsorship of the PWD which submits a clearance request to the Directorate

General of Technical Development (DGTD) of the Ministry of Industrial Development. If domestic equipment, which could possibly serve the purpose, is available, even at a high price and with lengthy delivery periods, the request for imports is denied - based on the implicit assumption that it is worth using unlimited amounts of domestic resources to save foreign exchange. The procedure is much more complicated than can be described here (see Vol. I, Chapter 5 of Economic Situation and Prospects of India, SA 25a of May 11, 1971, and Mr. Lankester's memorandum to files of September 9, 1971), but it is indeed rare that contractors can import equipment that is produced in India.

The lack of spare parts is the major explanation for the fact that equipment utilization rarely exceeds 30 percent. Again, the constraint is most severe in the case of existing imported equipment. The problem is compounded by the practice of preventing dealers from importing and centrally stocking parts. Instead, the actual users stock parts for their particular equipment. As a result, there are unutilized stocks where they are not needed, and equipment lies idle elsewhere for lack of parts. While the Government had made available annually about \$3 million for spare part imports until the end of 1969, no foreign exchange for parts has been released since then. Dealers now have cash orders in the value of about \$13 million against which the Government is proposing to release about \$2 million.

This problem is recognized at the highest levels in Government. A report by the Council of Ministers in 1970 supported the idea of the importance of spare parts to utilize equipment already in the country, and Government agencies cooperated with the Caterpillar Company in conducting a study on the spare part problem.

Due to the scarcity of certain materials, especially steel and cement, contract conditions usually specify that these materials will be supplied by the PWDs. This is, however, conditioned by the phrase "if available". If the PWDs cannot deliver the materials as needed, the contractor has no regress against the owner; he must procure them at considerable higher cost on the market, or accept an extension of his work period without compensation.

Conclusion

This review of the circumstances under which the industry operates demonstrates that the development of the total Indian construction industry is indeed hampered by impediments. Contract conditions and other Government policies force the contractors' dependence on planning and direction by Governmental agencies. The gradual removal of these impediments is within the Government's control, and would be the strongest impulse for the further development of the industry.

Outline of a Proposal for the Use of
Shadow Rates in Procurement

A workable method for applying shadow rates at the procurement stage must meet the following criteria:

- (i) clarity: since the application of shadow rates represents an adjustment of the prices perceived by the contractor, the system must provide clear and uncomplicated signals to the contractor trying to determine the factor mix which would give him the best chance to win the award.
- (ii) flexibility: the corrective system must allow a reasonable margin of flexibility in factor proportion throughout execution. While contractors base their bids on a fairly detailed program of work specifying methods to be used, they cannot foresee all circumstances which might require some changes in methods and factor proportions to assure timely completion to specified quality standards.
- (iii) exclusion of abuse: while the system should permit enough flexibility for the contractor to adapt his methods as the work progresses, it must not open the possibility of abuse. Contractors should not find it profitable to submit bids based on the use of labor in order to win the award while intending to use machines during execution.

The system which in our opinion comes closest to meeting these requirements would have the following features:

- (i) Price adjustments would only be applied to unskilled labor. Although, ideally, shadow rates should also pertain to foreign exchange and domestic capital, the inducement to increase the use of local labor already discourages the use of domestic and imported machines.
- (ii) Tender documents would make known to potential bidders the extent of the price adjustment for labor. Contractors would be asked to specify their bid price in financial terms, and to add a statement showing the labor content of the bid.
- (iii) The tender documents would further specify that the award would be made to the contractor who submitted the lowest evaluated bid in terms of economic cost. For evaluation purposes, therefore, the cost of the labor content of each bid would be reduced by applying the specified shadow rate.

- (iv) Since the contractor must pay the financial cost of labor, the signed contract would be for the full bid price in financial terms. He would receive the full bid price if he adhered to the labor content as specified in his bid.
- (v) The contractor would be permitted to change factor proportions as the work progresses; however, he would face a financial disincentive. His contract value would be so reduced as to limit the maximum additional payment permitted for equipment to the economic opportunity cost (shadow wages) of the labor substituted. 1/
- (vi) During execution, actual expenditures on labor would be determined by certifying labor payrolls. Payments

1/ A simplified example illustrates this point:

Shadow rate for labor = 75% of wages

(i)	<u>Financial cost of original bid:</u>		
	Labor 40 Other factors 60	Contract value	100
(ii)	<u>Economic cost of original bid:</u>		
	Labor 30 Other factors 60	Total economic cost	90
	(75% of 40)		
(iii)	<u>Payment permitted after substitution of 20% of labor:</u>		
		Payment for other factors as originally specified	60
		Financial cost of labor actually used (80% of 40)	32
		Opportunity cost of replaced labor (75% of 8)	6
	Labor 32 Other factors 66	Total payment	98
(iv)	<u>Economic cost after substitution of labor:</u>		
	Labor 24 Other factors 66	Total economic cost	90
	(80% of 30)	(60 + 75% of 8)	

are normally made in monthly installments of the unit rate pertaining to particular work items. Control of the factor mix and payment adjustments for deviations from the originally specified factor mix require that unit rates identify separately the labor component of each work item. Unless there is evidence of very substantial changes in factor mix, payment adjustments for marginal changes could be effected at longer intervals, say, 3 to 6 months, while intermediate monthly payments would be those compatible with the original factor mix. However, the final contract price adjustment would be made on the basis of the total amount of labor used under the contract.

- (vii) There would be no upward adjustment of the total contract value as a result of any changes in factor mix; however, increased quantities of work would be paid for at quoted unit prices, and normal escalation clauses would apply.

The proposed system severely limits the possibility of abuse while providing the necessary flexibility for contractors. Throughout execution, whenever the contractor wishes to change the factor mix, he would be confronted with the same price signals for different factors that applied in bid evaluation. As a result, whatever new factor mix he decides upon, he would never exceed the economic cost associated with the factor mix specified in his original bid.

Although under the proposed system the award would be made to the bidder proposing a method which leads to the lowest economic cost, the financial value of his contract is likely to be higher than that of the lowest bidder in financial terms. Appraisal missions must assess this possibility and provide an estimate of the financial costs of projects to be executed at lowest economic costs. Disbursements would be made as per an agreed percentage of financial project costs. These financial costs are influenced by the shadow rate used. In determining the appropriate rate, the Bank should be guided by the Government's assessment of the true scarcity value of labor. However, it will probably be necessary to limit the price adjustment in order to limit the increase in financial cost. We would therefore suggest leaving the price adjustment for labor to member governments, provided that the shadow rate is not lower than, say, 75 percent of labor wages. Since this, or any other method of applying shadow rates at the procurement stage is new for borrowers, contractors and the Bank, it would be preferable to apply it first to a limited number of pilot projects.

LOAN COMMITTEE

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October 29, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Mexico - Zihuatanejo Tourism Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated October 29, 1971 from the Central America and Caribbean Department, entitled "Mexico - Proposed Loan for the Zihuatanejo Tourism Project" (LC/0/71-113).
2. Comments, if any, should be sent to reach Mr. Ruffini (ext. 2475) by 5:00 p.m. on Wednesday, November 3.
3. It is planned then, if the Committee approves, to inform the Government and representatives of Nacional Financiera and the Bank of Mexico that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

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LC/0/71-113

October 29, 1971

LOAN COMMITTEE

Memorandum from Central America and Caribbean Department

MEXICO - Proposed Loan for the Zihuatanejo Tourism Project

1. Introduction: Attached for the Loan Committee's consideration is an Appraisal Report entitled "Appraisal of the Zihuatanejo Tourism Project" (PT3) dated October 27, 1971, which recommends a Bank loan of \$22 million to help finance our first tourism project in Mexico. In accordance with the usual practice in Mexico, the loan would be made to Nacional Financiera, S.A., with the Guarantee of the Mexican Government. There would be a Project Agreement with the Bank of Mexico, a trust fund of which -- Infratur -- would have primary responsibility for executing the project.
2. The Bank has made 26 loans to Mexico, totalling \$1,074.1 million. In the past the volume of lending to Mexico has varied greatly from year to year depending mainly on the status of the projects pipeline, which was particularly low at the time of the changeover of Mexican administrations a year ago. As a result, in FY 1971 only a \$75 million loan for livestock and agricultural credit was made. The pipeline has now been built up, and the operations program for FY 1972 currently totals \$267 million including, in addition to tourism, loans for ports, railways, power and an industrial fund. A copy of the five-year lending program is attached.
3. Economic Situation: A Report entitled "Current Economic Position and Prospects of Mexico" (CA-14a) is expected to be distributed to the Board during the first half of November. President Echeverria, during his first year of office, has taken a series of actions to come to grip with the most urgent economic problems. The quality of economic management has markedly improved under the new Administration, notably in public investment planning and external debt control. The expansion of demand has been slowed down slightly in 1971 to reduce the growth of imports, and a vigorous export-promotion program has been put into effect. A fiscal package was adopted in December 1970 as a first step toward improving the financial situation of the public sector. Further revenue measures will be required, notably price and rate increases on the railroad services, electric power, and petroleum products. The Government is aware of the need for these adjustments and is expected to take decisions on prices and rates, once the six-year public investment programs have been reviewed by the President later this year. The medium-term outlook remains favorable, subject mainly, in addition to the above public revenue measures, to an improvement in exports; the prospects for exports may, however, be

adversely affected by the U.S. import surcharge which applies to 40 percent of all Mexico's exports. Tourism development will play a major role in helping Mexico attain a satisfactory export growth target. In the longer run a continuation of rapid growth and social stability will depend on the Government's success or failure in attacking fundamental problems such as the balance between population size and natural resources (notably water), the uneven distribution of national income and the mounting need for improvements in education, public health and employment opportunities.

4. The Project: At a meeting on February 19, 1969, the Loan Committee considered the approach which the Bank should follow with respect to the financing of a tourism infrastructure project, at that time in the process of identification, on the Pacific coast of Mexico between Acapulco and Puerto Vallarta (LC/A and M/69-5). The Government subsequently decided to confine the project to the Zihuatanejo area, about 180 km north-west of Acapulco, while simultaneously developing a similar new resort area at Cancun on the Yucatan coast, where a project is now proceeding with the help of a \$21.5 million loan from the Inter-American Development Bank. Both projects have been entrusted to Infratur, a trust fund established by the Bank of Mexico especially for this purpose. The Zihuatanejo project includes rehabilitation of the existing village, development of a new tourist resort nearby at Ixtapa and construction of a new international airport at a total estimated cost of around \$44 million, including contingencies.

5. Amount and Composition of Loan: In line with the recommendation of the Western Hemisphere Department, the Loan Committee agreed two years ago that the Bank "keep open the possibility of some local currency financing, but with the reservation that if the amount involved were large such financing would have to be reconsidered". Subsequently, Mr. Knapp accepted the recommendation of the Central America and Caribbean Department (in a memorandum of February 3, 1970) that the Bank would be prepared to consider financing 50 percent of the total cost of items eligible for inclusion within the scope of a loan for tourism infrastructure. The Mexican authorities were so informed. It was assumed by this Department that housing and land acquisition would be the principal items excluded in determining the amount of the Bank's contribution.

6. The attached Appraisal Report recommends a loan of \$22 million, representing 50 percent of the estimated project cost of \$44 million. Housing (for hotel workers and others) has been excluded from the latter figure, and the expectation is that housing will be provided largely by private initiative. However, as the Appraisal

Report points out, some assistance is likely to be needed from public funds, and I agree that the Federal Government should be required to devise some way of providing such assistance for "self-help" housing in Zihuatanejo, notwithstanding the general rule in Mexico that housing is not a charge on the federal budget (Appraisal Report, paragraph 4.01).

7. While the \$44 million project cost, as set out in paragraph 3.15 of the Appraisal Report, excludes housing, it includes \$2.35 million for the acquisition of land for the resort area of Ixtapa and the airport. I see no particularly strong reason to include the cost of land for the purpose of calculating the amount of the loan. Mr. Chadenet agrees. I propose therefore that the amount of the loan be reduced accordingly, i.e. by 50 percent of \$2.35 million = \$1.175 million. Allowing for possible other minor adjustments in the figures, the final amount of the loan is likely to be in the region of \$20.5 - \$21.0 million. It should be noted that the project includes investment in such facilities as a golf course and a marina, but these are integral parts of a resort area, and I see no objection to the Bank financing them.

8. On the realistic assumption that all major construction contracts, although open to international bidding, will be won by Mexican contractors, the foreign exchange component of the project is estimated at \$13.3 million. Just over one-third of the loan will therefore be for local costs. I consider this to be amply justified in Mexico where there is a strong country case for local cost financing. It may also be relevant in this connection to note that the Zihuatanejo tourism project is located in a region of exceptionally low income and high unemployment, so that it will be making a direct contribution to the relief of acute social problems.

9. Institutional Arrangements: The appraisal mission gave particular attention to working out arrangements for effectively coordinating the many different agencies, Federal, State and Municipal, which will be concerned in executing and operating the project (Appraisal Report, paragraphs 3.21 through 3.32). Investments in the resort area at Ixtapa, accounting for approximately 40 percent of total project costs, will be the direct responsibility of Infratur, and a Project Agreement will be negotiated with the Bank of Mexico specifying its role in carrying out the project. Various Federal Secretariats will assist Infratur in this task. However, Infratur will not be in charge of developments in the urban area of Zihuatanejo, which will be implemented in part by the Secretariat of Hydraulic Resources and in part by the National Bank for Public Works. The Secretariat of Public Works will be in charge of airport construction. The Government of the State of Guerrero and the Municipality of Zihuatanejo will also have important functions in relation to the project. The Bank of Mexico does not have the power to issue directions to the Federal Secretariats or to State and Municipal authorities,

and ultimate responsibility for the coordination of project activities will be vested in the Secretariat of the Presidency, with Infratur acting for it on the spot through a Project Unit specially established for this purpose. The Guarantee Agreement will require the Government to ensure the timely and effective participation of all the various executing agencies, and the Secretariat of the Presidency will designate, in consultation with the Bank, a senior official with necessary supporting staff to follow the progress of the Project and -- in cooperation with Infratur -- to take all steps necessary to ensure its effective implementation. His designation will be a condition of effectiveness of the proposed loan. While this will be a very complicated arrangement, I cannot think of any better alternative in Mexican conditions, and the Bank's past experience in dealing with Mexico justifies a fair degree of confidence that things will turn out all right in practice. The key appointment will be that of the Director of the Project Unit, and we shall do our best to ensure that a good man is found to perform this task.

10. Master Plan, Airlines and Hotels: The Loan Committee concluded two years ago that the Bank would want to be satisfied that the Government was formulating a satisfactory master plan and taking the steps necessary for its implementation, and that adequate progress was being made in negotiations with airlines and hotel investors. Infratur had a great deal of difficulty in the preparation of the master plan, and this is one of the main reasons why the project has been so long delayed. However, a suitable plan meeting the requirements of an integrated tourism development has now been completed with extensive help from Bank technical staff. Since the Mexican agencies involved in the project have already agreed in principle to the design of its components, and their construction capacity is proven, prospects are favorable that the infrastructure will be completed along the lines of the plan and without serious delays. No problems are foreseen with regard to airline routes since Mexico will simply declare Zihuatanejo a co-terminal with Acapulco under existing bilateral agreements. Various hotel companies have expressed a keen interest in sponsoring hotels, but Infratur has not begun negotiations in advance of loan approval by the Bank. Since being the first investor in a new site involves certain risks, I agree with the recommendation in the Appraisal Report that the Mexican Government be asked for assurances that it will, if necessary, take steps - including the provision of finance -- to ensure that 750 hotel rooms be built and operating not later than 1976. This will guard us against the risk, in my view very slight, that private capital will not be forthcoming in adequate volume in the early years to justify the infrastructural investments.

11. Economic Justification: The economic return on the project, including private as well as public investments, will obviously be very sensitive to the rate at which hotels are built and occupied. On varying assumptions about occupancy levels and opening dates, and with shadow pricing of unskilled labor, the Appraisal Report estimates the internal rate of return at between 15.6 percent and 20.8 percent. I consider these calculations reasonable.

12. Procurement: Major civil contracts and contracts for most equipment would be awarded under international competitive bidding with items grouped to the extent practicable to encourage such bidding. The proposed project is within the capacity of the Mexican construction industry to implement, but foreign contractors might submit bids for the larger contracts. With regard to the water supply and sewage elements of the project, numerous small civil works contracts will be required, and only local contractors are likely to submit bids. It is therefore proposed that for these civil works contracts only national competitive bidding be required. The total value of such contracts is estimated at \$2.0 million equivalent. A contract of about \$160,000 for a portion of the navigational aid equipment for the airport will for technical reasons be negotiated directly with a U.S. firm that has supplied all other airports in Mexico with similar equipment.

13. Consultants Services: In response to a recent Mexican request, about \$1 million is being included in the project for consultants services to assist in the preparation of future projects in new tourist zones and of a plan for attacking current problems of water pollution and urban deterioration in Acapulco resulting from the rapid growth of slum areas. Current prospects are that one or more of the projects for new zones may be suitable for future Bank financing. However, we have expressed strong doubts to the Mexican authorities about the desirability of direct Bank involvement in financing the redevelopment of Acapulco itself, since its unplanned growth has given rise to some extremely complicated social and political problems which would be difficult for the Bank to handle. The necessary investments can anyhow be financed through the allocation of Mexican Government funds for this purpose.

14. Term of Loan: A major potential constraint to rapid economic growth in Mexico is the future level of public debt service. This depends specially on the type of external debt management that the Mexican authorities will implement. There are encouraging signs that the Government is taking positive steps in this direction and I believe that there is a strong case for the Bank to help the Government in its efforts to improve the external debt profile.

I therefore agree with the recommendation of the Appraisal Report that a term of 25 years is warranted. As in the case of our most recent highways loan -- the only 25 year loan to Mexico thus far -- this term is in line with the expected minimum economic life of the project.

15. Recommendation: I recommend that representatives of the Mexican Government, Nacional Financiera and the Bank of Mexico be invited to negotiate a loan of about \$21 million to Nacional Financiera, with the guarantee of the Mexican Government, for the Zihuatanejo tourism project on the terms and conditions proposed in the Appraisal Report.

Edgar Gutierrez
Director

Attachment

LOAN COMMITTEE

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SEP 05 2014

WBG ARCHIVES

October 26, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Malawi - Karonga Rural Development Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated October 26, 1971 from the Eastern Africa Department, entitled "Malawi - Proposed Karonga Rural Development Project" (LC/0/71-112).
2. Comments, if any, should be sent to reach Mr. Panikar (ext. 4905) by 5:00 p.m. on Friday, October 29.
3. It is planned then, if the Committee approves, to inform the Government that the Association is prepared to begin negotiations for the proposed credit on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
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Copies for Information:

President
The Economic Adviser to the President
Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
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LC/0/71-112

WBG ARCHIVES

October 26, 1971

LOAN COMMITTEE

Memorandum from the Eastern Africa Department

MALAWI: Proposed Karonga Rural Development Project

I. BACKGROUND

1. Attached is an appraisal report (PA-106) dated September 30, 1971 on the Karonga Rural Development Project in Malawi. It supports an IDA credit of \$5.7 million for this project.
2. The Bank Group has so far made seven IDA credits to Malawi totalling \$40.55 million. The proposed credit would be the fourth for integrated regional development with emphasis on agriculture, a type of project which has been particularly successful and has become part of the Government's accepted strategy for development. Other IDA projects, covering highways, education and power, have also been progressing well.
3. The five-year lending program (copy attached) indicates a continuing emphasis on rural development and the proposed project fits in with the development priorities of the Government.

II. THE ECONOMY

4. An Economic Report entitled "Recent Economic Developments - Malawi" was distributed in August 1971.
5. Since Malawi became independent with the breakup of the Federation of Rhodesia and Nyasaland in 1964, GDP has increased by about 5.3 percent annually; gross investments by 28 percent annually and British aid for the current budget has declined from about 40 percent of current expenditures to only 13 percent in FY1971 (ending March 31). Exports doubled between 1964 and 1970, and an increased capital inflow in 1970 brought about a rise in foreign external reserves which reached \$30 million at the end of December 1970, i.e. the equivalent of about $4\frac{1}{2}$ months' imports.

6. Gross investment rose from 11 percent of GDP in 1964 and 1965 to 20 percent for the last two years. However, some of the increased investment is accounted for by projects which were undertaken earlier than the growth of demand would justify and some of dubious economic justification. These include a railway link to the Port of Nacala in Mozambique, which is now completed, a new capital city now under construction at Lilongwe and possibly some investments in roads. Part of the increase in investment was financed by a rise in net capital inflow from \$5 million annually in 1964-1965 to \$35 million annually in 1969-1970. Another part was met during 1966 and 1967 by drawing down foreign exchange reserves. However, a rising portion of gross investment was covered by an increase in domestic savings. While in 1964 domestic consumption almost equalled GDP and gross domestic saving in the following year was only \$5 million, Malawi now saves about \$19 million annually which represents about 30 percent of total investment.

7. Current revenue increased by over 15 percent per year between 1964-1971 against a 7 percent expansion of recurrent expenditure. While this was accompanied by fiscal measures aimed at raising the efficient operation of Government service, per capita expenditures on certain services, e.g. health, showed little increase and now amounts to about 85 cents annually. Last year the Cabinet approved ceiling rates of increase for different types of recurrent expenditures for the next 3 years in order to limit the overall rise in recurrent expenditure to 6 percent a year. The Government's objective is to eliminate British budgetary support by 1974, except for the "topping up" of salaries of British expatriate civil servants in Malawi. The chance that the Government will succeed in this objective seems reasonably good. While at present the public sector does not generate any savings, the improvement in fiscal performance since independence is reflected in the rapid decrease in budgetary aid.

8. The service on Malawi's external public debt as of December 1970 amounted to \$5.7 million or about 9 percent of export earnings. It is probable that despite continued rapid increase in exports, Malawi's debt service burden will increase significantly during the next few years. The need to keep borrowing on hard terms to a minimum and to borrow only for clearly economically justified purposes has been brought to the Government's attention. We intend to watch the situation carefully.

9. On the whole, despite some premature investments and still a low overall level of savings, the rapid growth rate of production and investment and the sustained efforts to raise savings indicate an improvement in performance to justify IDA support.

10. Malawi continues to need aid on concessionary terms. Since the country is dependent on external assistance even for current expenditures, external aid will have to finance a high proportion of

the cost of projects and some financing of local expenditure will be necessary. In the project under review, it is proposed that IDA finance 85 percent of the total cost.

II. THE PROJECT

11. The proposed project, the first phase of larger development efforts, would be a five-year program of agricultural development in the Karonga area, supported by improvements to health services and transportation. The project would include: (a) Eight rice schemes - two irrigated on about 1,500 acres to produce double cropped rice and six organized rainfed schemes on about 6,000 acres to produce single cropped rice; (b) Improvements to dry cultivation of maize, cotton and groundnuts on about 7,800 acres through extension services and provision of inputs; (c) An initial livestock development comprising dipping tanks, markets, a holding ground and improvements to stock routes; (d) Seasonal and medium-term credit to project farmers; (e) Further studies on crops and hydrology and a feasibility study for a possible second phase; (f) Improvements to health facilities in the project area; and (g) Rehabilitation of the freight service on Lake Malawi, which would comprise the construction of jetties, associated access roads and buildings, the provision of a mobile crane, tractors and trailers and two powered barges. The project would directly benefit about 4,600 farmers and also many small cattle owners. The other project components such as agricultural studies, health and transportation would indirectly benefit the whole area.

12. A Project Unit within the Ministry of Agriculture and Natural Resources (MANR) would carry out the agricultural and health components of the project, the latter in consultation with the Ministry of Health, while the Ministry of Transport and Communications would be responsible for the transportation component of the project. A Project Manager with headquarters in Karonga and reporting directly to the Permanent Secretary of MANR, would be in charge of day to day operations. Malawi Railways, under the Ministry of Transport and Communications would be responsible for the rehabilitation of the Lake Service. As several Ministries have responsibilities concerning the Project, a Karonga Rural Development Project Liaison Committee would be established, whose members would be senior officials from MANR (Chairman), the Cabinet, Treasury, Ministry of Works and Supplies, Ministry of Transport and Communications, Ministry of Health and Community Development and Local Administration, and the Project Manager, who would be Executive Secretary to the Committee. The Liaison Committee's primary function would be to coordinate inter-Governmental project activities and the establishment of such a Committee would be a condition of effectiveness of the credit.

13. The improvement of health facilities in the area is a noteworthy feature of the proposed project and would make a contribution to increasing agricultural productivity. The measures to be taken are

a bilharzia control program on the eight rice schemes, the construction and operation of five rural health outposts and improvements to the buildings and supporting services at the Chilumba Rural Hospital and the Karonga District Hospital. Recurrent expenses for the two initial years have been included in the project costs and an assurance will be obtained that subsequent recurrent expenses would be borne by Government.

14. While the agricultural and health components of the proposed project have been fully appraised, details of the transportation component are subject to finalization. More information is needed on the designs and detailed plans for the construction and equipment and firmer cost estimates are required. The Government and Malawi Railways, which own and operate the Lake Service, are completing their final plans for rehabilitation of the Lake Service, and the required data will soon be available. A sum of \$1 million, which is the preliminary cost estimate, has been included in the project costs for transportation facilities. Detailed proposals for improving the Lake Service will be considered during negotiations and IDA's approval of the final proposals for the improvement of the Lake Service would be a condition of effectiveness of the credit.

15. The appraisal report estimates the total cost of the project at \$6.7 million with a foreign exchange component of \$3.5 million. The proposed IDA credit of \$5.7 million will cover 85 percent of the project cost including the entire foreign exchange component and \$2.2 million of local currency costs. The remaining 15 percent of project costs would come from Government; however, the Government would recover about 5 percent of project costs from the project farmers by way of service charges and fees. Project funds would be channelled through two Ministries - funds concerned with transportation through the Ministry of Transport and Communications, and all other funds through the MANR.

16. Procurement of vehicles, machinery, equipment, fuel, fertilizers, pesticides, drugs, construction of ports, access roads and barges totalling about \$2.5 million in value would be by international competitive bidding. Items of equipment costing less than \$25,000 equivalent in any year would be purchased subject to local tender, as would be items relating to the program of staff housing, workshops and office development estimated at about \$1 million, which would be too small and widely scattered to attract international competition. Construction of the 3.6 mile access road and jetty for Chilumba port (about \$200,000) would also be exempt from international bidding. Instead, it is proposed that they be constructed under an extension to the contract for building the Chilumba-Chiweta road, which was awarded as a result of international competitive bidding and is now being executed by W & C French (Malawi) Ltd. All farm inputs procured by international competitive bidding would be handled through the Agricultural Development and Marketing Corporation (ADMARC) which is a parastatal organization. All tenders would be processed by the Central Tender Board. Both ADMARC and the Central Tender Board are organizations

known and following procedures satisfactory to IDA.

17. In calculating the rate of return to the economy, family labor cost has been taken as zero because there is almost no opportunity in the area for employment for cash wages. What little extra labor beyond the family's own labor that may be required would come from other families within each scheme and would be paid for in kind. The rate of return, which is sensitive to variations in rice and cotton revenues, ranges between 17 and 12 percent according to high or low price estimates for rice and cotton.

18. Most of the assurances recommended in Para. 9.01 of the draft appraisal report are similar to those obtained in the three previous credit agreements for projects of this type in Malawi. They have been discussed with the Government and no serious difficulties are anticipated during negotiations. Since the transport component is an essential part of the proposed project, agreement with the Government on details of the proposed improvements to the Lake Service should be a condition of effectiveness as proposed.

IV. RECOMMENDATION

19. As a result of possible variations in the exchange rate between the US \$ and the Malawi Kwacha which is pegged to the UK £ sterling, the estimated total cost of the project may go up from \$6.7 million to \$7.0 million. In order that the proposed credit should cover the costs as envisaged in the appraisal report, we should be prepared to raise its amount slightly. Accordingly, I recommend that the Association invite the Government of Malawi to negotiate a credit of up to \$6.0 million for the proposed Karonga Rural Development Project substantially in accordance with recommendations set forth in Section IX of the draft appraisal report.

Michael L. Lejeune
Director
Eastern Africa Department

Attachment

POPULATION: 4.2M

PAGE 10

GNP PER CAP: \$ 50

IVA MALAWI

= 5 YEAR OPERATIONS AND LENDING PROGRAMS

(BY FISCAL YEAR - AMOUNTS IN \$ MILLIONS)

OPERATIONS PROGRAM

	1972	1973	1974	1975	1976
8-MAL-AD-04 AGRIC.DEVT.UNIDENT.					8.0
8-MAL-AI-01 KARONGA AGRIC.	5.8				
8-MAL-AI-02 AGRIC.SHIRE IRRIG.II		7.0			
8-MAL-DD-01 DFC/MDC					2.0
8-MAL-EE-02 EDUCATION II			7.5		
8-MAL-PH-02 POWER 11				7.0	
8-MAL-QQ-01 TOURISM			3.0		
8-MAL-TH-03 HIGHWAYS II				11.0	

 1964-68 1969-73 1972-76

IBRD	1964-68	1969-73	1972-76
IDA	28.0	25.4	51.3
TOTAL	28.0	25.4	51.3
NO	5	4	8

IBRD	1972	1973	1974	1975	1976
IDA	5.8	7.0	10.5	18.0	10.0
TOTAL	5.8	7.0	10.5	18.0	10.0
NO	1	1	2	2	2

LENDING PROGRAM (2/24/71)

IBRD	1964-68	1969-73	1972-76
IDA	28.0	23.8	40.0
TOTAL	28.0	23.8	40.0
NO	5	4	6

IBRD	1972	1973	1974	1975	1976
IDA	4.5	7.0	7.5	11.0	10.0
TOTAL	4.5	7.0	7.5	11.0	10.0
NO	1	1	1	1	2

LOAN COMMITTEE

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SEP 05 2014

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October 22, 1971

MEMORANDUM TO THE LOAN COMMITTEE

Turkey - Irrigation Rehabilitation Project

1. The Committee is requested to consider, without meeting, the attached memorandum dated October 22, 1971 from the Europe, Middle East and North Africa Department, entitled "Turkey - Irrigation Rehabilitation Project" (LC/0/71-111).
2. Comments, if any, should be sent to reach Mr. Speller (ext. 4814) by 1:00 p.m. on Thursday, October 28.
3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

Dag F. Wittusen
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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President
The Economic Adviser to the President
Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

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LC/0/71-111

October 22, 1971

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

TURKEY - Irrigation Rehabilitation Project

1. This memorandum recommends a Bank loan of \$20 million to finance the foreign exchange component and part of the local currency cost of an Irrigation Rehabilitation Project. A report entitled "Appraisal of an Irrigation Rehabilitation and Completion Project" (PA-108) dated October 8, 1971, is attached hereto in support of the recommendation.

Background

2. Past Bank Group operations in the Turkish agricultural sector have focussed on the Seyhan Irrigation Projects, the execution of which has been satisfactory, after some initial difficulties. More recently, one Credit and one Credit and Loan, not yet effective, have been made to finance a Dairy Development Project and a Fruit and Vegetable Export Project. The effectiveness dates of these projects have been postponed due to delays experienced by the Turkish authorities in fulfilling some of the rather complex effectiveness conditions. Future Bank Group operations are described in the attached FY 1972-77 Lending Program (as revised following the CPN review on September 16, 1971). Five operations are planned for 1972. In addition to the rehabilitation project, loans or credits are contemplated for livestock development, a steel and a fertilizer plant and for urbanization. The current lending program envisages IDA financing for the livestock and urbanization projects. IDA financing could be considered for the irrigation rehabilitation project also but this would mean mixed Bank/IDA financing for urbanization in order to use completely the \$40 million allocated at present for Turkey; moreover, it is felt that IDA financing of the urbanization project would encourage the Government to take promptly the basic decisions required to ensure the comprehensive planning for an orderly development of Istanbul, which is the primary objective we seek to achieve in this operation. An appraisal mission on the urbanisation project is due to visit Turkey in November 1971. If, as a result, difficulties are foreseen in consummating lending for urbanisation in FY 1972, we would wish to replace Bank by IDA financing for the irrigation rehabilitation project. We therefore propose to carry out the negotiations for the latter project on the basis of a Bank loan with the understanding that an IDA credit would be substituted therefor should the outcome of the appraisal mission for the

water supply project, the largest of the three components of the urbanisation project, not be altogether favorable. In such a case, I propose that the IDA credit for the irrigation rehabilitation project be in the order of \$18 million to finance 50 percent of project cost. (The proposed Bank loan would include \$3.1 million for interest during construction.)

3. The findings of a Bank economic mission which visited Turkey in April 1971 were reported in a "Memorandum on the Current Economic Position and Prospects of Turkey" (EMA-40a) dated July 19, 1971. Reference is also made to the current economic situation in the Turkey CPN dated September 8, 1971.

The Project

4. The proposed project is intended to rehabilitate and complete the water distribution network and on-farm development in three project areas, Silifke and Koprucay on the Mediterranean coast and Tokat, north-east of Ankara. Existing irrigation schemes in these areas now partially serving about 26,000 ha. would be expanded to serve about 50,000 ha. Past Government investment in irrigation has frequently favoured major works at the expense of water distribution and land preparation. The objective of the project is to achieve the productive potential of existing or nearly completed irrigation works by providing the means necessary for continuing development. The project is expected to be the first of a number of similar Bank operations in Turkey.

Project Issues

5. Local Currency Financing. The project costs include a local currency component for an equivalent of \$25.4 million or two-thirds of the total cost of about \$36.6 million, exclusive of interest on the Bank loan during construction. Shortage of public savings has become an increasingly critical constraint on investment, particularly in 1970, for the Government and is likely to continue for the next few years. The situation is made worse by the inflationary pressures that emerged following devaluation in 1970. Turkey's domestic savings will therefore have to be supplemented by foreign assistance to help finance local currency costs of high priority projects. Moreover, local currency financing for this project is expected to encourage the Government agencies concerned to step up the preparation and implementation of the sizeable backlog of irrigation rehabilitation schemes which, despite their importance, have so far been given less attention than large new irrigation projects. I therefore propose that, in conformity with the recommendation on local currency financing approved in the Turkey CPN review, a portion of the local currency expenditure for the project should be supported by the Bank. The proposed Bank loan of \$20 million would cover the estimated foreign exchange component amounting to \$11.2 million, interest during construction on the Bank loan of \$3.1 million and \$5.7 million of local currency expenditure. (The latter amount would be slightly larger in the event of an IDA credit as proposed in paragraph 2 above). This level of support will still

require the Government to provide roughly half of the project costs (including interest during construction). In addition, the Government will be expected to make available adequate agricultural credit to farmers in the project areas, where credit demand is expected to double from \$4 million to \$8 million per year. Thus, even with the Bank's contribution to local currency needs, the Government will be required to make a substantial contribution to the financial requirements of the project.

6. Procurement. It has been agreed with the Turkish authorities that international competitive bidding will be used for all equipment purchases, with the exception of certain items which can be manufactured locally. These items, which amount to \$0.7 million, will be reserved for local procurement under normal government bidding procedures, and will be financed entirely by the Turkish Government. The Government may yet decide to procure some additional items without international bidding. If this is so, Agriculture Projects Department recommends, and I concur, that the corresponding sum be deducted from the loan account.

7. The existing government bidding procedures for awarding civil works contracts is restrictive with respect to price and source. An assurance will therefore be sought, at the time of negotiations, that bidding procedures should be modified and that international contractors be given the opportunity to bid on all contracts offered, in accordance with the Bank's guidelines. In certain circumstances, however, DSI and Topraksu (the Government agencies responsible for construction of irrigation works and on-farm development respectively) propose to carry out some work on force account. This procedure appears to be justified where coordination is required between work on the project and the need to maintain water services or where work of a specialised nature, which does not lend itself to competitive bidding, is involved. Both DSI and Topraksu have the capability and experience to carry out adequately such works on force account. Estimated expenditure on force account amounts to \$4.7 million, of which about \$2.0 million would be financed by the Bank.

8. Project Organization. The coordinated action of four government agencies is required to implement the project in three separate areas. In the past there has been some concern within the Bank regarding the organizational separation between DSI and Topraksu particularly as on-farm development has frequently lagged behind the completion of water storage and distribution networks (although more recently Topraksu has performed well on the Seyhan project by meeting its land improvement targets). Possible solutions to this problem were examined in the Bank's report entitled "The Development Prospects of Turkey" (EMA-30a, Volume III, Annex I) dated March 10, 1971. This suggests that a case can be made for bringing the irrigation activities of DSI and Topraksu together under the Ministry of Agriculture or, if this is not feasible at the

present time, consideration should be given to transferring the technical activities of Topraksu to DSI. However, Agriculture Projects Department believe, and I agree, that the requirements of the project are within the capability of the existing agencies and that major organizational reforms along the lines suggested in the above-mentioned Bank report call for careful study as they would involve basic changes in the responsibilities of several Ministries. Instead, the Bank will propose, during negotiations, that the Government should explore methods for better coordination particularly as this affects such matters as planning and financing of joint operations, staffing and the use of workshop facilities. One possibility to be discussed would be to establish, pending major organizational changes, a central committee comprising senior staff from DSI, Topraksu and the Ministry of Agriculture (in addition to the project coordination committees proposed in the Appraisal Report - see para 5.02). Such a committee could also be given the responsibility for preparing the plans and studies required for the phased implementation of the many other irrigation rehabilitation projects under consideration.

9. Consultants. It is clear that both Topraksu and the Extension Service will require outside assistance in organizing their work. The Bank will suggest, during negotiations, that the Government should retain Consultants who will provide expert advisers for both organizations, to be stationed at Koprucay and Tokat. The third project area, at Silifke, will be assisted by the Consultants now serving the Seyhan project, who can assume this additional task without difficulty

10. Water Rates. Present charges for irrigation water services are inadequate to meet operation and maintenance costs incurred in each of the Project areas. Agricultural Projects Department recommends, and I concur, that these charges should be reviewed so as to cover operation and maintenance costs and recover a reasonable portion of the investment costs, with due regard to the farmer's ability to pay and still retain an incentive to use project water.

Recommendation

11. I recommend that the Bank invite the Government of Turkey to send representatives to negotiate a loan of \$20 million along the lines of the recommendations contained in paras 8.01 to 8.03 of the Appraisal Report and in this memorandum, with the proviso of a possible shift to IDA financing as proposed in para 2 above.

Dieter Hartwich
Deputy Director

Att.

TURKEY - Proposed Lending Program
1971 - 1977

(\$ millions)

		Fiscal Years						Total 1969-73	Total 1973-77	
		1971	1972	1973	1974	1975	1976			1977
Agricultural Credit I	IDA			20						
- " - II	IDA					25				
- " - III	IDA							30		
Fruit-Vegetable I	(IBRD	10								
- " - I	(IDA	15								
- " - II	IDA			20						
- " - III	IDA						30			
Irrigation Rehabilitation I	IBRD		20							
- " - II	IBRD				20					
- " - III	IBRD						15			
Ceyhan-Aslantas	IBRD			55						
Lower First	IBRD					50				
Livestock I	IDA	4.5								
- " - II	IDA		15							
- " - III	IDA				20					
- " - IV	IDA						25			
Agriculture Unidentified I	IBRD				20					
- " - II	IBRD					20				
- " - III	IBRD							15		
DFCs - TSKE VIII	IBRD	40								
- " - IX	IBRD			45						
- " - X	IBRD					50				
- " - XI	IBRD							60		
DFCs - Second Co. I	IBRD				15					
- " - II	IBRD						15			
Education I	IBRD	13.5								
- " - II	IBRD			10						
- " - III	IDA					10				
Industry - IGSAS Fertilizer	IBRD		23							
- Erdemir Steel	IBRD		70							
- Paper Mill-										
Forestry	IBRD			25						
Industry & Mining Unident. I	IBRD				30					
- " - II	IBRD						25			
Power - TEK I	IBRD	24								
- " II Elbistan	IBRD				50					
- " III Lower First	IBRD					45				
- " IV Unidentified	IBRD							20		
- Cukurova IV	IBRD	7.0								
Tourism I	IBRD			5						
" II	IBRD				15					
" III	IBRD						20			
Railways I	IBRD			35						
" II	IBRD					40				
" III	IBRD							40		
Urbanization I (incl. water & power)	IDA		25							
" II (incl. sewerage)	IDA			20						
" III Unidentified	IDA					20				
" IV "	IDA							25		
Operations Program	IBRD	-	113	175	150	135	145	135	456	740
" "	IDA	-	40	40	40	55	55	55	111.5	245
Total		-	153	215	190	190	200	190	567.5	985
No		-	5	8	8	6	8	6	23	36
Lending Program	IBRD	94.5	100	120	100	85	95	95	388	505
" "	IDA	19.5	40	40	40	55	55	55	111.5	245
Total		114.0	140	160	140	140	150	150	499.5	750
No		6	4	7	7	5	6	5	21	30